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A sure bet for Emu?

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Russia tries to cut its bill

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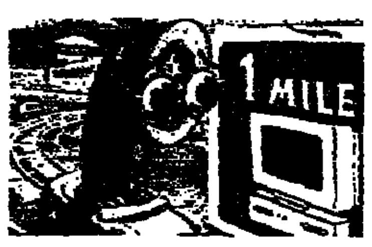

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World Business Newspaper http://www.FT.com WEDNESDAY JANUARY 21 1998

The FT 500, our annual guide to corporate rankings around the world, will appear **TOMORROW**.

The 48-page guide includes the world's top 500 companies by market capitalisation, together with the top 500 in Europe, the UK, the US and Japan.

WORLD NEWS

UK reviews offshore tax haven regulations

The UK government yesterday surprised the offshore centres of Guernsey, Jersey and the Isle of Man by launching a wide-ranging review of their financial systems. The review will look at laws, systems and practices for financial services regulation and company registration and the way they deter, investigate and punish financial crimes, including money-laundering. Page 18

UN agrees Iraq concessions
Chief UN arms inspector Richard Butler agreed to include outside experts at technical talks in an effort to persuade Iraq to co-operate with his disarmament mission. Page 8

Online music discord
Record companies are bracing themselves for fresh battles with their artists about revenues from music sold and distributed digitally across the internet. Page 18; Alice Rawsthorn, Page 8

Pope starts Cuba visit
Pope John Paul II starts an historic five-day visit to Cuba today surrounded by speculation about its potential political impact on the communist-ruled Caribbean island. Page 6; Editorial Comment, Page 17

Suharto seeks seventh term
President Suharto of Indonesia confirmed he would run for president in March, defying calls for his resignation amid a steadily worsening economy. Page 18; Observer, Page 17

Rome off hook over arrest
The Italian parliament voted not to proceed with the arrest of Cesare Previti, the former defence minister in Silvio Berlusconi's 1994 government, who is facing corruption charges. The move defuses a potentially serious crisis for Romano Prodi's government. Page 2

Baltic co-operation talks
Prime ministers from 12 Baltic basin states meet tomorrow to develop plans for long-term co-operation less than a week after US president Bill Clinton endorsed the desire of Estonia, Latvia and Lithuania to join Nato. Page 2

Cover-up alleged over killing
Relatives of Turkish journalist Metin Goktepe, beaten to death two years ago, asked a court to investigate charges of a high-level cover-up. The state has charged 11 policemen for alleged involvement in his death.

Algiers bomb blast
A bomb exploded in a busy street in the Ben Aknoun district of central Algiers, causing casualties at a time an EU delegation was holding talks with government officials on the violence sweeping Algeria.

Romanians braced for reform
Both houses of the Romanian parliament are due to meet today for an emergency session which could decide the fate of the government and the Romanian reform process. Page 3

BUSINESS NEWS

French banks sign first private derivatives deal in euro currency

Dexia and Crédit Local de France, French banks, announced the first privately negotiated derivatives agreement denominated in euros. Page 19

Allianz, German insurer, took a first step towards divesting its stake in Deutsche Bank in a DM2bn (US$1.1bn) convertible bond issue. Page 21

Adam Opel, German subsidiary of General Motors of the US, announced a package of investments, job cuts and wage curbs to improve efficiency. Page 21

Hongkong Telecom, the territory's dominant telecoms operator, agreed to surrender its monopoly on international services six years earlier than expected in exchange for a compensation package including HK$6bn (US$870m) in cash. Page 19; Lex, Page 18; HK telecoms joins modern era, Page 22

Microsoft said it would amend contracts with internet service providers in Europe to meet concerns from the European Union's anti-trust authority. Page 6

Kirch, Bertelsmann and Deutsche Telekom, German media groups, face scrutiny from European Union competition authorities over plans for a pay-TV alliance. Page 2

Gdynia shipyard, which showed a profit last year for the first time since 1990, is emerging as Poland's sector leader. Page 23

Sony Computer Entertainment was warned by Japan's Fair Trade Commission to halt anti-competitive practices aimed at maintaining prices of PlayStation games machines. Page 7

J.P. Morgan, the US international bank, is to designate more than 10 per cent of its loan exposure to South Korea, Malaysia and Thailand as "non-performing". Page 19; Lex, Page 18; Strong final quarter, Page 20

Digital Equipment, US computer group, is to launch micropayment technology to allow internet users to purchase information in small increments for a fraction of a cent. Page 6

Kia Motors, the South Korean carmaker, is considering an alliance with General Motors of the US in manufacturing car components. Page 22

Cyberview, which is developing key parts of Malaysia's hi-tech international business hub, said it would borrow M$1.6bn (US$380m) for infrastructure. Page 7

Lloyd's of London, the insurance market, has won UK government backing for its proposals for external regulation. Page 9

Mitsubishi Electric, Japanese electronics group, plans to offer international telephone calls from next month by leasing lines from KDD, the international carrier. Page 22

Shares in sector boosted

SmithKline and AHP in $125bn drug merger talks

By Daniel Green and William Lewis in New York

SmithKline Beecham of the UK and American Home Products yesterday confirmed they were considering a merger to create the world's largest pharmaceuticals company.

The deal would create a business with annual sales above $26bn, more than 110,000 employees and a combined market value of about $125bn.

The announcement sent a wave of speculation through drug company stocks, pushing up prices of shares in Glaxo Wellcome, Zeneca and Nycomed Amersham in the UK and Merck, Lilly and Warner-Lambert in the US.

SmithKline shares were up 7 per cent at one point, but fell sharply to end down 3p at 740p as AHP rose 13 per cent or $10 7/16 to $91¼ when Wall Street opened.

The higher AHP's shares, the smaller the slice of any merged company that would go to SmithKline shareholders.

Shares in both companies have risen strongly in recent days since news of the talks was published in the Financial Times. Both said yesterday they would make no further comment until talks were complete.

"There can be no assurances that any such transaction will be agreed or as to what the terms of such a transaction would be," added SmithKline.

Talks are set to take weeks rather than days as negotiating teams grapple with a issues ranging from who would run the new company to the potential costs of legal action against AHP for side-effects apparently caused to people who took Redux, its now-withdrawn slimming drug.

The talks may have been partly prompted by the uncertain future leadership of AHP, whose chief executive, Jack Stafford, has been ill. A merger would enable SmithKline's younger management team to take over, said Mariola Haggar, pharmaceuticals analyst at Deutsche Morgan Grenfell in New York.

The companies would be able to achieve "significant" cost savings - perhaps over $1bn a year - by combining manufacturing and pruning research and development spending, she said.

Steven Gerber, analyst at CIBC Oppenheimer, said combining the two companies would result in a "good philosophical alignment".

He said investors believe both companies keep a tight control on costs and have experience in successfully concluding large acquisitions. But a full merger would run against recent trends in the sector. It would be the first large deal since the 1996 creation of Novartis from the merger of Swiss rivals Ciba and Sandoz, and the US-Swedish merger of Pharmacia and Upjohn.

The P&U deal was followed by a series of profit warnings and helped push mergers off the industry agenda, especially when set against the strong growth most companies achieved in 1997. AHP missed out on much of that growth because it was forced to withdraw Redux, which had been one of the most successful drugs in pharmaceuticals history.

SmithKline had prescription drug sales of $8.15bn in 1996 while AHP reported $7.92bn, but sales are much higher when over-the-counter medicines and animal health products are taken into account.

AHP's adviser is Morgan Stanley Dean Witter.

Lex, Page 18; Background, Page 19; Observer, Page 17

Israeli prime minister Benjamin Netanyahu and US president Bill Clinton in the White House yesterday. Their meeting was said to have "gone extremely well". Netanyahu offers troops pull-out, Page 8 Picture: PA

Jospin rules out further rise in benefits for unemployed

By Robert Graham in Paris

Lionel Jospin, France's Socialist prime minister, yesterday ruled out further increases in unemployment benefit to help the jobless who have staged politically embarrassing protests in the past month to highlight their poverty.

Mr Jospin spoke to parliament on the eve of a television address aimed at heading off the well-orchestrated campaign by the jobless. If their demands were met in full, he said, it would immediately add another FFr60bn ($9.8bn) to the budget. He thought this would be an impossible extra cost.

Prime minister Lionel Jospin addressing parliament yesterday

The unemployed are demanding a rise in their benefits to bring them into line with the minimum basic wage. This would mean an extra FFr1,500 paid out monthly to each person, bringing their monthly entitlement to about FFr5,200. The protests have already prompted the government to pledge an additional FFr1bn.

The main jobless associations said their campaign would continue as long as the government remained inflexible. "If the government persists with this stance, it means they have listened to none of our complaints and underestimate the strength of our movement," they said.

Mr Jospin insisted in a welfare policy statement to parliament that his government's position was not simply conditioned by budgetary considerations. It concerned the delicate relationship between those living off social security and those employed at minimum wages. "We do not want a society dependent upon [state] assistance, but one based upon work and productive activity," he said. By pointing out the cost of complying with all the demands of the unemployed, Mr Jospin left some space to introduce extra funding for specific allowances.

Robert Hue, leader of the Communist party, which has four ministers, found positive elements in Mr Jospin's policy statement. The Communists have recently embarrassed Mr Jospin by siding with the protest movement as well as being more openly critical of the government's commitment to the European single currency.

A tight budgetary position that could be further complicated by the Asian crisis is hampering the government's attempts to find more money for unemployment benefit. Any concession to the unemployed risks a knock-on effect as shown yesterday when primary school teachers went on strike. The strike was called to highlight pay differentials between two categories of teachers caused by reforms negotiated in 1989 when Mr Jospin was education minister.

This pay differential cannot be removed in the short term without heavy extra public spending.

Political rivalries, Page 2

Asian crisis sends sea cargo rates down 20%

By Jonathan Ford

Commercial shipping rates have fallen sharply since the Asian crisis began as weakening demand has forced owners to cut prices.

Average daily rates for dry bulk cargo vessels have fallen by 20 per cent since mid-October. Larger container ships have suffered falls of 10 per cent.

Analysts expect rates to continue decreasing in coming months as business arranged before the crisis is unwound, leaving a growing number of ships lying idle.

"Cargoes are generally arranged several months before they are due to be delivered," says Philip Rogers at SSY Consultancy and Research. "So the crisis is just beginning to really have an impact now."

Mr Rogers predicts that dry cargo rates will fall by another 20 per cent this year.

The extent to which Asian trade has plummeted can be seen in the widening differential between charter rates for carrying cargoes to and from the Pacific region.

Average daily rates from an Atlantic port to the Pacific are $10,700, while the reverse journey costs just $4,800.

"Owners do not want to send their ships to Asia because they are finding it difficult to pick up cargoes for the return trip," says Mr Rogers.

Analysts expect the situation to persist into the first half of this year as Asian economies absorb the impact of heavy currency devaluations, which have

Continued on Page 18
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Markets

STOCK MARKET INDICES		
New York lunchtime		
Dow Jones Ind Av	7769.99	(+16.44)
NASDAQ Composite	1579.06	(+16.18)
Europe and Far East		
CAC40	3008.34	(+21.39)
DAX	4307.91	(+22.97)
FTSE 100	5278.2	(+4.8)
Nikkei	16,368.53	(+104.48)
GOLD		
New York Comex (Jan)	$290.8	(290.6)
London	$288.85	(287.55)

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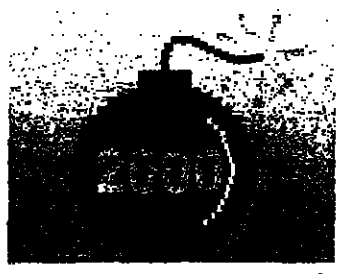

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NEWS: EUROPE

EU looks into German pay-TV deal

By Emma Tucker in Brussels and Frederick Stüdemann in Berlin

Plans for a pay-TV alliance between the German media groups Kirch and Bertelsmann plus Deutsche Telekom are certain to face tough scrutiny after the European Union's competition commissioner confirmed yesterday he would open a full anti-trust investigation into the deal.

"We will be moving into a second-stage investigation," said Karel Van Miert. "I think that was fairly clear from the outset."

The extended probe, expected to be announced formally over the next few weeks, will give the parties four months to suggest alterations to their plan to satisfy the Brussels regulators.

The process is likely to be particularly tense as less than four years ago Mr Van Miert took the rare step of blocking a joint venture involving the same companies. This was on the grounds that it would have created or reinforced a dominant position in three separate markets – pay television broadcasting, technological services associated with pay-TV and the market for cable network services.

This time, the companies say they have devised a formula for an open technological platform to which other parties would have access. The platform would be administered and operated by Deutsche Telekom, though using technology owned by the three companies.

Germany's cartel office has written to Brussels claiming that this arrangement still poses a threat to competition. It warns of the threat of market dominance that arises from plans by CLT-ufa (in which Bertelsmann has a 40 per cent stake) to acquire stakes in Beta Research and Beta Digital, Kirch subsidiaries.

These, respectively, own the German licences to digital decoding technology and run a digital television broadcasting centre. In a separate agreement, the companies then plan to sell a stake in Beta Research to Deutsche Telekom.

Mr Van Miert also confirmed that both of the recently announced global accountancy mergers involving Price Waterhouse and Coopers & Lybrand, and KPMG and Ernst & Young would face a full investigation by Brussels, adding that the two would be investigated "in parallel".

He also hinted that a potential case against Microsoft over contracts signed by the company with internet service providers in Europe was likely to be settled amicably. John Frank, director of law and corporate affairs for Microsoft in Europe, confirmed this.

● Swiss prosecutors said yesterday they were unable to substantiate the suspicions of the Munich state prosecutor's office that the 1989 sale by Kirch of a package of films to a company in Switzerland had been conducted through a shell company. The Munich officials allege that the film sale was done as part of a tax evasion manoeuvre by Kirch.

Twist to French nuclear logic

French policymaking does not always proceed with the Cartesian logic that administrators would like us to think it does. Take nuclear policy, for instance.

The prime minister, Lionel Jospin, confirmed in a speech last June that the 11-year-old Superphénix nuclear reactor, the largest fast reactor ever built, was to be shut down. This was in keeping with a Socialist party election campaign pledge.

Mr Jospin justified the decision by saying that the nuclear industry should not "pursue projects which are excessively costly and have very uncertain prospects of success".

What the prime minister did not say was that France's other fast reactor - the older and smaller Phénix - was to be reopened after a break of three years. Yet this is what the government now seems to be on the verge of announcing.

The official explanation for this apparently contradictory position is that a tool is needed to conduct experiments that will help France to decide in 2006 how best to dispose of the waste from its extensive network of nuclear reactors. These generate about three-quarters of the country's electricity.

Some of these experiments can be conducted only in a fast reactor. With the government committed to closing the giant 1,200MW Superphénix, it follows that the reopening of Phénix, much smaller at 250MW and located at Marcoule in southern France, was necessary.

The initial attraction of such reactors was that they were capable, in theory, of "breeding" enough plutonium to supply their own fuel. But there is no reason why the technology should not be used instead to destroy plutonium – as well as other harmful byproducts of the nuclear industry known as higher actinides. It is this capability that the experiments will be designed to test.

It is almost certain that a decision to restart Phénix, which is about 25 years old and has in the past experienced significant technical problems, would be unpopular with France's environmentalist movement. This remains low-key by the standards of many other European countries, but has shown signs of gathering momentum.

From a technical viewpoint, however, it could be argued that Phénix is a better installation in which to carry out the experiments envisaged, since it is smaller and more flexible.

David Owen

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France agonises over unruly young

Growing urban violence is sharpening political rivalries

Riot police move against a demonstrator at an unemployment protest in Paris AP

The burning of dozens of cars in French cities over the New Year has touched off a bout of national agonising over juvenile delinquency and urban violence.

The spectacle of more than 60 cars destroyed in Strasbourg alone, coming after attacks on bus and tram drivers in troubled areas of other large cities last year, raises important questions about French urban policy.

It has also sharpened political rivalries. Jacques Chirac, the Gaullist president, keen to re-establish a commanding role for himself after his party's election defeat last year, swiftly took the initiative by convening a meeting of a dozen mayors at the Elysée Palace last week to debate the topic.

He let it be widely known that the discussions had run on for over four hours.

Not to be outdone, Jean-Pierre Chevènement, the Socialist interior minister, Martine Aubry, employment minister, Elisabeth Guigou, justice minister, and Alain Richard, defence minister, jointly addressed more than 300 mayors in Paris last Monday. They unveiled their "local security pacts" designed to improve efforts to calm urban tensions.

To some, including the leftwing daily paper Libération, the extent of the violence has been exaggerated and even partly provoked by the media, especially the presence of television. Equally, there is little doubt that films such as *La Haine* have focused on the negative aspects of life in French inner cities.

Mr Chevènement emphasised on Monday that, according to his figures, delinquency had declined by 1.86 per cent during 1997. Besides, urban violence was certainly not unknown in the US, the UK or other industrialised nations.

But troubled French urban areas do have some distinctive characteristics. Most are not "inner city" districts at all, but rather *banlieues* or suburbs, far more cut off than in other countries. The huge, dehumanising concrete towers of the "mushroom cities" built in the 1960s and 1970s around large metropolitan centres have long suffered from isolation.

Limited transport links, a concentration of low-income apartments and a gradual departure of shops and other municipal facilities have also led to a growing concentration of immigrants and unemployed people. Social problems have accumulated in consequence.

Some French suburbs report rates of joblessness several times higher than the national level, which is at a near-record high. It is little surprise that Islamic associations, among the few to remain in such areas, have gathered growing support from the young.

While one of the principal demands of local residents is greater security and a strong police presence, some critics argue that few officers live locally or are trained in community relations.

Confrontations with the young who live in these districts are common, and a handful of housing estates have become "no-go" areas.

But the situation is not so clear-cut. The prosecutions of those involved in the Strasbourg rioting show that many culprits came from relatively well-off families.

There were even some suspicions that car owners themselves may have taken advantage of the confusion to destroy their vehicles for the insurance money.

More broadly, there is cross-party agreement among urban mayors that measures to increase employment opportunities are at the centre of any meaningful policy.

All those who talked to Mr Chirac last week, ranging from Communists to those on the political right, support Ms Aubry's initiative to create 350,000 state-supported jobs, targeted at the young unemployed.

Views are more split on ways to deal with delinquency. Some on the right have talked about imposing fines or reducing the welfare benefits of parents who do not effectively control their children. Even some mayors on the left have supported calls for curfews for the young.

Ms Aubry has called for the creation of a separate urban affairs minister to work with her. While absent from Mr Jospin's cabinet, such a figure appeared in many previous governments in the 1980s and 1990s.

What is certain, and most feared by France's mainstream politicians, is that the recent discussions about urban violence will serve only to inflame public concern about safety, and play into the hands of the extreme rightwing National Front party.

The party, led by Jean-Marie Le Pen, achieved a near-record 15 per cent in the general election race last year, and his rivals worry that the latest polemic will increase support for the Front ahead of regional elections in March – particularly since one of the regions that most supported the National Front was Strasbourg.

Andrew Jack

Italian parliament rejects move to hold former minister

Rome off the hook over arrest

By James Blitz in Rome

The Italian parliament voted last night not to proceed with the arrest of Cesare Previti, the former defence minister in Silvio Berlusconi's 1994 government, who is facing corruption charges.

In a move that defuses a potentially serious crisis for Romano Prodi's government, the chamber of deputies voted by 341 votes to 248 not to proceed with the immediate arrest of Mr Previti as requested by Milan magistrates.

The decision not to ratify the arrest does not rule out Mr Previti standing trial at some later date for his alleged participation in the bribery of a group of judges who ruled on a 1993-94 case involving the Italian merchant bank IMI and the SIR chemicals company. Mr Previti has repeatedly denied the allegations.

But a decision to incarcerate Mr Previti now – on the grounds that he might have tampered with evidence pending trial – would have triggered immediate retaliation from the political centre-right. This was a prospect that threatened to wreck Italy's programme of constitutional reform.

The figures in yesterday's vote suggested that most deputies in the centre-left ruling coalition and its communist allies had voted in favour of arrest. But members of the centrist Italian Popular party within the coalition had indicated they would join the centre-right opposition bloc in voting against, while the regionalist Northern League party also appeared to have voted against arrest at the last minute.

Yesterday's vote was taken shortly before Helmut Kohl, the German chancellor, arrived in Rome for a short and informal visit during which he was expected to give encouraging words to Mr Prodi, the prime minister, over Italy's bid to enter the single European currency.

With the Italian government appearing quietly satisfied after European Union finance ministers endorsed the country's budget plans for 1998 on Monday, Mr Kohl and Mr Prodi were expected to hold talks on a wide range of subjects, including Emu, the Kurdish refugee crisis and the possibility of EU enlargement to the east.

Mr Prodi's office has made it repeatedly clear in recent days that the chancellor's visit would not be accompanied by a firm commitment over whether Italy would qualify for monetary union. This would be left to a critical EU summit in May.

But the nature of the visit seemed set to launch a warmer relationship between the two countries after some bitter words from German politicians in recent weeks over Italy's immigration policy and alleged laxity in allowing large numbers of Kurdish refugees into the EU.

Baltic states discuss new links

By Anthony Robinson and Matej Vipotnik

Less than a week after President Bill Clinton endorsed the desire of Estonia, Latvia and Lithuania to join Nato, prime ministers from the Baltic basin states – including Russia – meet tomorrow to develop plans for long-term co-operation.

The meeting will be in Riga, Latvia's capital, and is only the second at prime ministerial level of the Council of Baltic Sea States, set up in Copenhagen in 1992 and now comprising 11 states including Norway and Iceland.

Despite Russia's formal objection to Nato membership for the three former Soviet Baltic nations, the resumption of economic growth in Russia and rapidly rising trade and investment in the Baltic region are creating an increasingly powerful stimulus for closer Russian involvement in other fields.

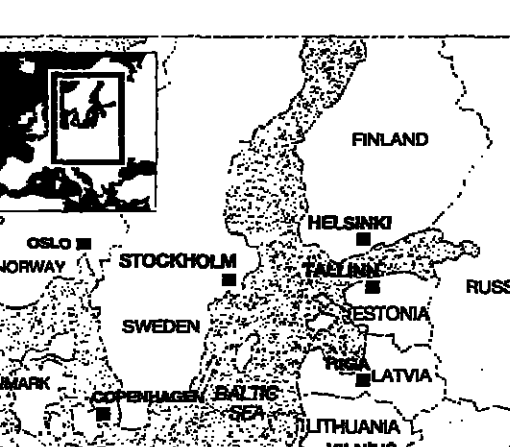
In 1990, the last full year of the Soviet Union, only 35 per cent of Soviet sea-borne trade went through the Baltic ports, including St Petersburg. By last year, this had risen to 45 per cent, studies based on Russian and Finnish statistics show.

The volume of transit traffic through the Baltic states has also risen strongly, especially through Latvia and Lithuania, which provides road and rail links to the Russian port enclave of Kaliningrad. At the same time, the Russian gas giant Gazprom is investing heavily in a new gas pipeline running through Belarus and Poland to northern Germany; other Russian energy companies are building new pipelines and loading facilities at Baltic ports.

The aim of the Council of Baltic Sea States is to facilitate much wider regional co-operation, bringing in the Nordic states, Poland, Germany and the European Union generally.

By leaving issues such as security, borders and minorities to regular meetings of regional foreign ministers, the council's prime ministers are left free to discuss broader issues of regional co-operation.

The council's remit covers development of democratic institutions, protection of



the Baltic's fragile environment and the struggle against organised crime. The framework also provides an opportunity for discussing issues in private bilateral talks and informal groups.

The Riga talks will, for example, provide an opportunity for useful talks between Helmut Kohl, the German chancellor, and Victor Chernomyrdin, Russian prime minister, the leaders of the two biggest Baltic powers. John Prescott, UK deputy prime minister, will attend as the representative of the EU's current presidency.

Formally, the main subject on the agenda at Riga will be fighting organised crime and money-laundering. Rapid growth in both areas over the past few years has been a side-effect of the emergence of a new financial environment in the region.

Belgian court summons Dassault chief

By Emma Tucker in Brussels

A Belgian court has summoned Serge Dassault, chairman of Dassault Aviation, the French aircraft maker, and Willy Claes, the former secretary-general of Nato, to appear before it on September 2 to testify in a long-running corruption scandal.

The case concerns allegations that Dassault Aviation and Agusta, the Italian armsmaker, paid kickbacks to Belgian political parties in return for securing lucrative arms deals with the Belgian air force.

The allegations forced the resignation in 1995 of Mr Claes from the top Nato job.

According to judicial officials, 10 other people, including Guy Coëme, the former Belgian defence minister, and Rafaello Teti, former chief executive of Agusta, were also summoned on Monday.

Mr Dassault's group is alleged to have paid between $2m and $3m in bribes to the Flemish and Francophone socialist parties in Belgium in order to win a $210m contract to supply electronic systems to modernise the air force's F-16 fighter jets.

The decision to award the contract to Dassault was made by Mr Claes, the former leader of the Flemish socialist party, who was then minister for economic affairs. Agusta, which received a contract in 1988 to supply 46 helicopters to the Belgian army, is suspected of paying BFr51m ($1.3m) to the Flemish party, as well as other amounts to its French-speaking sister.

Mr Dassault has denied all charges of wrongdoing but so far he has rejected moves to make him travel to Belgium. In May 1996 an international arrest warrant was served on Mr Dassault, but this was lifted last June.

NEWS DIGEST

Havel re-elected as president

Vaclav Havel, the Czech president, won re-election in the second ballot of presidential elections last night.

Mr Havel failed to muster the necessary absolute majority of all members of both houses of parliament in the first round yesterday. But in the second round, requiring a simple majority of those voting, he polled 99 votes in the 200-member lower house and 47 in the 81-member upper house the Senate, as the only candidate. Two candidates backed by the Communist party and the ultra-right Republican party did not gain enough support in the first vote leaving Mr Havel to advance to the second round unimpeded.

Of Mr Havel's failure to win an absolute majority in the first ballot, Petr Pithart, chairman of the Senate, said: "I think some members of parliament maybe wanted to tease Mr Havel a little bit." *Reuters, Prague*

■ POLAND AND EUROPE

Spain offers advice on EU

Spain supports Poland's integration into Nato and the European Union, and will share the experience gained in its own accession process despite earlier disputes on trade issues, government leaders said yesterday.

Poland's prime minister, Jerzy Buzek, and his Spanish counterpart, José María Aznar, signed a joint declaration on Spain's support and on intensifying political and economic ties. Spain, which joined the common European structures in 1986, will make its access procedure experience available to Poland through regular meetings on integration among experts and officials, the declaration said. The government heads and foreign ministers are also to hold annual meetings and consultations.

Spain threatened last year to block Poland's EU negotiations as a way of applying pressure for a lower import tax on Spanish fruit in Poland. Earlier this year Spain also protested against the lowering of import duty on Polish steel sold to the EU.

Mr Aznar assured Mr Buzek he expected no difficulty in getting approval for Poland's Nato membership in the Spanish parliament. *AP, Warsaw*

■ GERMAN ECONOMY

Asia worry for GDP target

German gross domestic product should expand by 2.5-3 per cent this year unless the financial crisis in south-east Asia deepens, the economy ministry said.

In a summary of its monthly report on the economy, the ministry said the target should be achieved as long as "the crisis in Asia does not deepen and does not spill over to other nations and regions".

It noted, for instance that, while German exports to the region account for 6 per cent of total exports, other countries that Germany trades with may export more to south-east Asia. Imports from the region, which have become cheaper as a result of the crisis, also will increase to Germany and the countries it trades with, the ministry said.

Apart from the possibility that German goods may be pushed out of other markets, the ministry said a decline in exports to Asia from Germany's trading partners may "in turn affect German exports, "especially if the situation leads to a decline in economic growth". *AFX, Bonn*

■ TURKISH POLITICS

Islamists seek compromise

Turkey's Islamists have offered to ease their opposition to the coalition government of the prime minister, Mesut Yilmaz, in an effort to water down a ban on the Islam-based Welfare party, government MPs said yesterday.

"They said they would change the tactics they have used until now. That is, they won't block parliament and present motion after motion to impede the passage of laws," Ugur Aksoz, a senior member of Yilmaz's conservative Motherland party.

He said the Islamist leader, Necmettin Erbakan, made the offer to Mr Yilmaz at a meeting last Friday just before the constitutional court banned Welfare on charges of threatening the secularist constitution. The court also threw Mr Erbakan out of parliament and banned him from political leadership for five years. *Reuters, Ankara*

■ SLOVAKIAN PLOT

Threat to kill PM claimed

The Slovak government said yesterday it had been warned of an attempt on the life of Vladimir Meciar, the prime minister, before the end of next month.

"On Monday afternoon, the government received a telegram from a Slovak diplomatic mission abroad warning of an assassination attempt by February 25," a government spokesman, Jozef Kroslak, said. The would-be assassins were alleged to have been given DM1m ($500,000) from someone in Slovakia, he added.

A spate of car bombs, the burning of an opposition journalist's car last year and the kidnapping of President Michal Kovac's son in 1995 have made for a tense political atmosphere in Slovakia. This year Slovakia holds two crucial elections. Parliament will choose a new president on January 29. Elections for a new parliament will be held in late September. *Reuters, Bratislava*

■ BOSNIAN SERBS

Nationalists spurn government

Bosnian Serb nationalists announced yesterday they would not recognise the new government named this week, threatening a fight for authority in the Serb-held part of Bosnia. The Serb Democratic party (SDS), still loyal to the wartime leader, Radovan Karadzic, said it did not acknowledge the government named after a stormy parliamentary meeting early last Sunday.

The SDS is the largest single party in the new Bosnian Serb parliament, but it and its allies were outvoted early Sunday by Serb moderates backed by deputies representing Moslem and Croat refugees.

The new Republika Srpska government is headed by a relative moderate, Milorad Dodik. In a boost for him, the Yugoslav government in Belgrade under President Slobodan Milosevic recognised his government on Monday, apparently ending support for the nationalists to which it has long been loyal. *AFP, Pale*

■ EUROBOND ISSUE

Prague refused permission

The Czech finance ministry has refused Prague city council permission to issue $260m of eurobonds to fund infrastructure projects. It pointed to the government budget deficit and the country's growing foreign indebtedness as the reasons for its decision.

The 5-year bond issue managed by Crédit Lyonnais and Nomura was planned to fund construction of two ring roads, a tunnel and an extension to the metro. The ministry said it would "help the capital city in finding other financial sources for the purposes". Some of these projects have already been started in the expectation that the bond issue would be granted. The city is already overdue with its payments to contractors on the metro.

The ministry's decision highlights the problem of the growing indebtedness of municipalities, which some estimates put at Kc19bn ($536m). *Robert Anderson, Prague*

Ukraine pays for hollow victory

Price for beating hyper-inflation is a payments arrears crisis, reports Charles Clover

When Ukraine conquered hyper-inflation three years ago, it paid a price, or rather, failed to pay it. The deficits which the government had financed with central bank credit did not go away, they merely mutated into a new problem.

"Instead of using printing presses, the government simply stopped paying some of its liabilities, and so did many commercial enterprises," said Janusz Szyrmer of the Harvard Institute for International Development (HIID) in Kiev.

Ukraine's "payments arrears" crisis is so severe that unpaid bills now exceed the national gross domestic product. The plague has afflicted other former Communist countries, notably Russia and Kazakhstan, but Ukraine is arguably the worst hit.

The overdue debts of the Ukrainian economy stand at a staggering $60bn, according to detailed studies completed recently by the European Union's Tacis programme and HIID.

Most of these debts are owed between enterprises, but workers and pensioners are owed about $3bn-$4bn by public and private entities, an issue which has come to dominate the run-up to next March's parliamentary elections. Energy has been rationed in some areas, not because of a shortage of energy, but because of a shortage of payment.

Meanwhile, the amount of barter in the Ukrainian economy grew to 66bn hryvna ($34bn) worth of transactions last year, according to the state statistics committee.

The problem is treated in some circles as a legal issue, and recommendations have been made to strengthen contracts, enforce bankruptcy laws and develop a "culture of payment". But the crux of the issue is macroeconomic rather than legal. Even if everybody wanted to pay their debts, they couldn't, because the banking system is too small. Typically, bank assets and trade credits in a western capitalist country hover at a level between 50 per cent to 150 per cent of GDP – roughly the level of arrears in the Ukrainian economy, according to the Tacis study. Bank credit in Ukraine, along with that in other countries hard hit by arrears problems, remains at a level of 5-10 per cent of GDP.

The Tacis study notes that Ukraine's inter-enterprise payments arrears have a "circularity index" of 85 per cent: that is, only 15 per cent of the arrears are net arrears. This means that most debts are the result of uncollected credits. Most Ukrainian enterprises, in other words, are not bankrupt, but rather insolvent.

"The non-payments crisis is absolutely a substitute for our lack of a healthy banking system," said Valentin Kulichenko, Ukraine's deputy minister for industry. Enterprises have been forced to "borrow" working capital directly from employees, pensioners and suppliers, without banks as intermediaries.

Wage and pension debts of the Ukrainian government budget, which amount to more than $1bn, can be thought of as *ad hoc* deficit finance.

The Ukrainian government in 1996 followed a fairly transparent policy of not paying this amount in salaries and pensions in order to keep its budget deficit within 3 per cent of GDP. "They tricked everyone for two years, because they had inflation under control, and everyone was looking at the cash deficit. But they were running arrears as a fiscal device," said a western economist in Kiev.

The behaviour of payments arrears in other countries tends to confirm that they are filling the vacuum left by lack of financial intermediation. Kazakhstan tried in 1994 to clear inter-enterprise debts, which had risen to roughly one-third of GDP, with huge amounts of central bank credits. Not only did this result in four-digit inflation but, according to the national bank chairman, Uraz Dzhandosov, "within a few months of clearing our payments arrears, they rose again to the same level as before, and have stayed there ever since".

Aside from expropriating wages and pensions, the most harmful long-term aspect of relying on arrears as a form of credit is that they allow unviable enterprises to continue to function on a so-called "soft budget".

"Anybody can create an arrear, but not everybody can take out a bank loan," said Lucan Way, an expert on arrears at the World Bank.

As long as a fundamental macroeconomic imbalance continues to exist, enterprises and governments will continue to rely on the wages and pensions of their employees and those of their suppliers in the same way as they used to rely on printing money: to avoid reform.

"Economic stabilisation is like trying to cure the finances of a drunk, who is broke because he spends too much on drinking. You can't cure the finances until you cure the drinking," said Mr Szyrmer.

An old woman in Kiev counts the cost – workers and pensioners are owed nearly $4bn AP

Romanians braced for reform vote

By Anatol Lieven

Both houses of the Romanian parliament are due to meet today for an emergency session which could decide the fate of the government and the Romanian reform process.

Emil Constantinescu, the president, called the session to vote on the government's reform legislation, starting with a bill to speed up the privatisation process.

Other proposals cover a range of issues, including the powers of the central bank and the privatisation of state utilities.

Victor Ciorbea: under fire

In an address to the nation over the weekend, the president said that if parliament voted against the proposals, a vote of confidence in the government would follow automatically.

The Democratic party (PD), junior partners in the coalition government led by Mr Constantinescu's National Peasants party, has already threatened to leave the government if Victor Ciorbea, the prime minister, does not resign.

The PD says Mr Ciorbea is responsible for delays and confusion in the reform process.

Mr Constantinescu accused the PD last weekend of "medieval intrigues" and of defending the position of corrupt interest groups hostile to reform.

"This vote will show the parties' commitment or lack of commitment to the reform process," he said.

"Such votes will speak louder than political statements."

The PD, led by Senate chairman Petre Roman, Mr Constantinescu's arch-rival, appears internally divided on how to vote today. It might find it difficult to vote against reforms it has championed.

One PD leader, Radu Berceanu, has said that the PD should bring down the government in the event of a vote of confidence.

However, some PD leaders are anxious not to cause early elections, which opinion polls suggest the party would lose disastrously. Former foreign minister Adrian Severin, a PD vice-president, has said that early elections are not a "viable solution".

There have been suggestions in the Romanian press that the PD may allow its MPs to vote independently in a vote of confidence.

Another possibility is that Mr Roman may use his position as chairman of the Senate – and therefore speaker of the joint parliamentary session – to delay the vote or block it altogether.

Under Romania's convoluted constitution, the rules for joint sessions and parliamentary votes of confidence give ample opportunity for more of the procedural confusion and delays which have plagued the Romanian reforms since they began.

Chubais downbeat over economy

By John Thornhill in Moscow

Anatoly Chubais, first deputy prime minister, yesterday gave an uncharacteristically sullen assessment of Russia's economic prospects, suggesting a stable middle class might not emerge before 2015.

Mr Chubais said it would take many years of rapid economic growth to raise living standards although he predicted the average wage would double to $400 a month by 2005.

Even if Russia maintained high growth rates thereafter, it would only rank between the fifth and tenth largest economies in the world by 2015, he said. That would be 30 years after Mikhail Gorbachev, the former Soviet president, first launched his perestroika drive.

Nevertheless, Mr Chubais, who has spearheaded the government's reform efforts for the past six years, said a great deal had been accomplished in 1997 in spite of much political mud-slinging and the fallout from the *financial turmoil in south-east Asia.*

For the first time in eight years, Russia had registered economic growth in 1997, with gross domestic product rising by 0.4 per cent and industrial output by 1.8 per cent.

In an interview in the Kommersant newspaper, Mr Chubais said the government must tackle three important reforms this year. The corporate tax burden must be reduced, gas and transport tariffs should be cut, and the crisis over non-payment of bills must be resolved. If these issues were successfully resolved, the economic growth rate could rise to as much as 7 or 8 per cent a year, he predicted.

"The positive changes in the Russian economy are only noticeable to a narrow circle of specialists, because a 2-3 per cent growth rate is a very interesting subject for professional discussion but is extremely insignificant for the average person," he said.

Mr Chubais made no reference to last week's redivision of ministerial responsibilities, which many observers believed left him *in a much weakened position within the government.*

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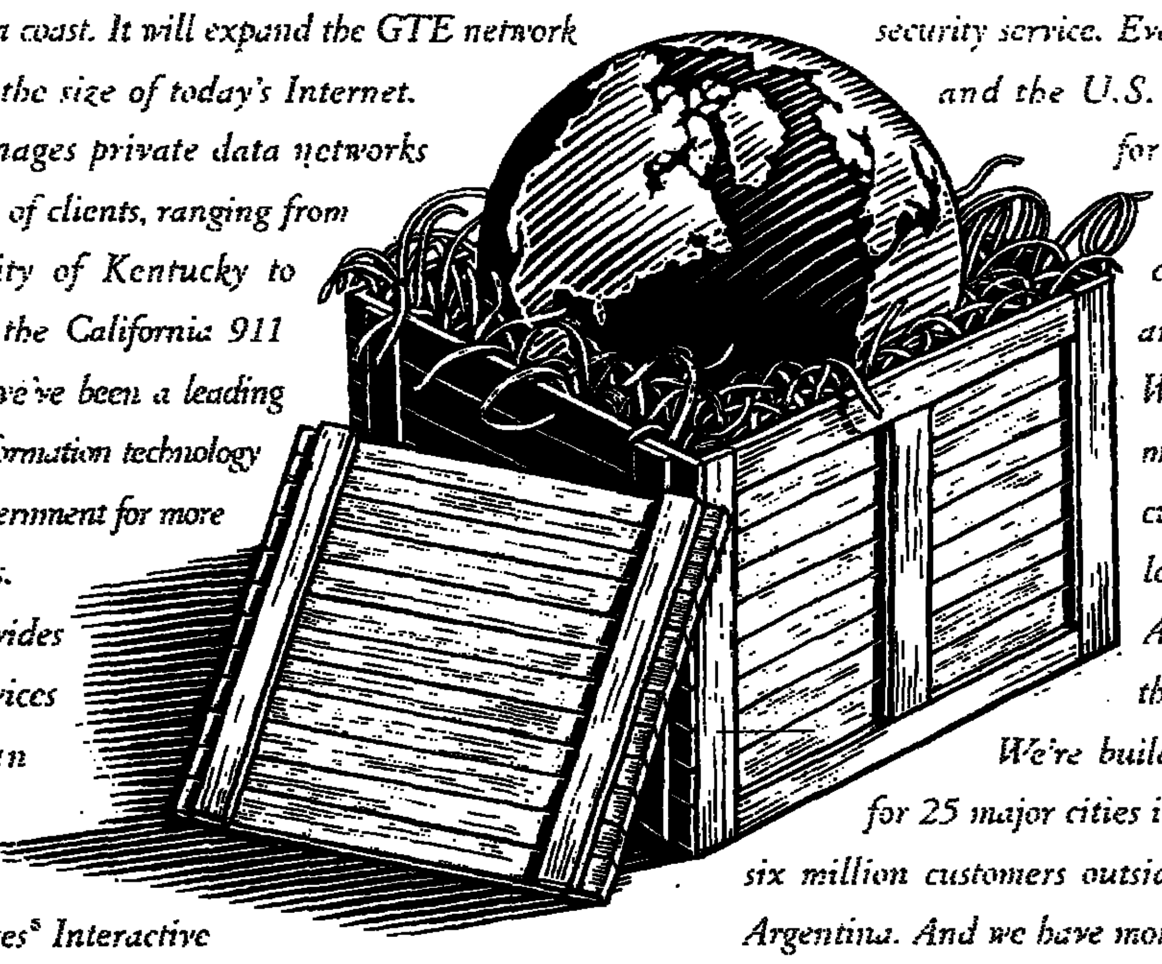

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Asia effect 'may be less than feared'

By Raymond Colitt in Caracas

Latin America will see economic growth slow only slightly in 1998 and is unlikely to suffer any long-term impact from the Asian crisis, according to Ricardo Hausmann, chief economist of the Inter-American Development Bank.

At an industry conference in Caracas yesterday Mr Hausmann said growth in Latin America this year would slow by less than 1 percentage point as a result of the Asian crisis. Regional gross domestic product gain, excluding Brazil, would reach 5 per cent.

Brazil, he admitted, was "more complicated" and would grow "by no more than 2 per cent because of fiscal cuts and efforts to preserve foreign exchange stability".

"This is a small blip from which we will recover. This time they [the Asian countries] are in trouble, not us," said Mr Hausmann, referring to the early 1980s when Asia briefly suffered under the Latin America debt crisis.

Today the situation was reversed, he said, rejecting suggestions that Latin America had problems similar to those Asia currently had. "Our fundamentals are strong."

He argued the region's financial situation was solid. "We've neither seen excessive credit growth nor fiscal deficits (except for Brazil), both typical conditions preceding financial crises."

Because of its limited regional integration, Brazil had not been an engine of regional growth nor had it dragged down the region's economy during the last large crisis – the 1994 Mexican devaluation, he said.

Structural reforms – including tariff reductions, a restructuring of the banking sector and stronger revenue bases – accounted for 2 per cent of GDP growth in Latin America over recent years, said Mr Hausmann. The region saw the strongest growth performance – 5.5 per cent – in a quarter century within a deflationary context. Regional average inflation came down for the first time to a single digit.

"We've seen impressive structural reform and economic stabilisation in the region."

Mr Hausmann's upbeat outlook follows recent dramatic falls in the region's stock markets and readjusted growth forecasts. Several of the region's countries have seen export prospects dip under weakening Asian demand.

The Asian crisis was having two principal short-term effects, said Mr Hausmann. "One is that we're in the same equity class – emerging markets. Two, our trade terms are worsening."

FDA to act on human cloning

By Mark Suzman in Washington

The US Food and Drug Administration (FDA) has announced that it will take action against anyone who seeks to clone humans until Congress passes legislation on the issue.

Michael Friedman, acting commissioner of the FDA, warned that any attempt to pursue cloning without the agency's approval would be a violation of federal law.

He said that because cloning had health and safety implications for both foetus and mother, it fell within the FDA's legal remit to regulate, and the agency would be prepared to go to court to stop unauthorised cloning experiments.

The announcement follows growing concern about the medical and ethical repercussions of cloning humans after Richard Seed, a Chicago scientist, announced he was prepared to start doing so within 18 months.

President Bill Clinton has already banned the use of federal funds for human cloning research following the announcement last year that Scottish scientists had successfully cloned an adult sheep. He has called on Congress to pass legislation banning such cloning as soon as possible.

Several related bills have already been introduced in preparation for Congress's return from winter recess next week.

Smalltown Amarillo is all set for big court case over BSE remark

Oprah beefs up Texan town

Farmers' internet chatlines are humming. Amarillo, a 180,000-strong cattle town in the Texan Panhandle, is abuzz with activity. And, from newspaper leader columns to conferences, environmentalists and libertarians have started to debate whether Americans' constitutional right to free speech should override a tranche of new "food defamation" laws.

The cause of this furore is the lawsuit brought by Texan cattle-ranchers against Oprah Winfrey. They claim the hugely popular TV personality cost them millions of dollars when her talk show ran a segment on BSE – bovine spongiform encephalopathy or "mad cow disease" – and its possible implications for the US meat industry.

In the course of the April 1996 show, Ms Winfrey said that discussion of the brain-destroying malady which has caused big problems for the British cattle industry had "just stopped (her) cold from eating another burger" - despite the official US line that there is no evidence of the disease penetrating the US meat sector.

Live cattle futures fell after the show, prompting Paul Engler, a cattle producer whose Cactus Feeders company is based near Amarillo, to sue Ms Winfrey and one of her guests under Texas's food defamation laws.

Yesterday, after two weeks of pre-trial manoeuvrings, the case began in earnest as jury selection started. But already, outside the courtroom, Ms Winfrey – who

Oprah Winfrey waves from a car in the town of Amarillo AP

flew into Amarillo on Monday afternoon – has shrewdly turned herself into a business asset for the Texan town.

Two weeks ago, her publicity machine let slip that she would broadcast her programme, normally filmed in Chicago and attracting up to 15m viewers, from the Amarillo Little Theatre next week. That, in turn, prompted rampant speculation over where she would stay, where she might eat, and who she might interview.

Inevitably, a bevy of reporters have landed on Amarillo in her wake. Satellite trucks now ring the local courthouse.

Already Judge Mary-Lou Robinson has struggled to prevent the blaze of publicity from submerging the case. "It has come to the attention that the approaching trial... is generating pervasive media attention," she said in a recent ruling, pointing to media calls over court seating arrangements and the growing risk that the potential jury pool would be "tainted".

Accordingly, she has slapped "gag" orders on the plaintiffs, defendants and their respective lawyers – although this has done little to suppress media coverage. Ms Winfrey's own lawyers have argued unsuccessfully that the case should be removed to Dallas where, they claim, the chances of an impartial jury might be improved.

The swelling publicity, say consumer advocates, should not distract from the important principles underlying the case – which effectively pits food defamation laws, introduced in about 13 states over the past three years and usually tagged "veggie libel laws," against the right to free speech.

At a conference in Washington DC yesterday, Reginald James, director of the south-west regional office of the Consumers' Union, argued that the laws themselves "turn 600 years of common law on its head" and could threaten the flow of information about essential industries and products.

The outcome of the case was "going to mean a lot for the protection of our food supply," he argued, saying "a lot of the message (on food safety) has come through the media". The government, by contrast, had not been "particularly aggressive".

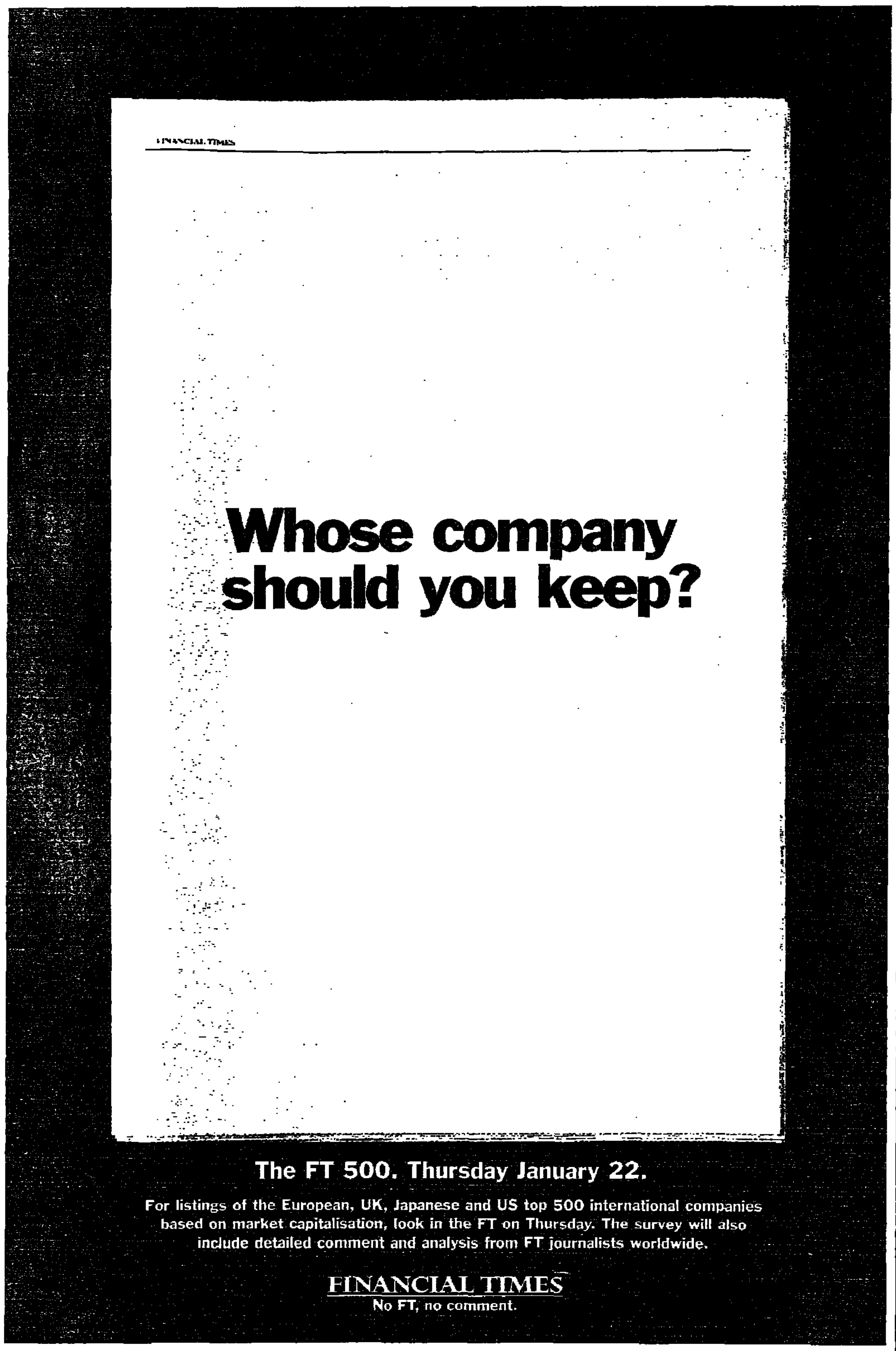
Pointing to the vagueness with which these laws have been drafted, he also wondered if the Bible might be libellous when it urged against the eating of fish without scales – a stricture which hardly benefits owners of commercial catfish farms.

Nevertheless, in the particular circumstances of the case, plaintiffs will need to demonstrate Ms Winfrey's show violated the Texan act by knowingly giving out false information about beef.

Much may turn on how the programme (which did include a representative of the National Cattlemen's Beef Association and the US Department of Agriculture) was edited, and Ms Winfrey's remarks about burger abstinence. This appeared to endorse concerns expressed by one guest on the show, the cattlemen's lawyers could argue. Court documents, on the other hand, suggest Ms Winfrey's lawyers will maintain that she was simply stating an opinion.

Back on the internet chatlines, farmers themselves seem to have mixed views. Not all are unsympathetic to Ms Winfrey. "It is not the cattle industry suing Oprah, it is one cattleman," suggested one caller to the talk site run by "Successful Farming".

Nikki Tait



$200bn reduction proposed in US debt

By Bruce Clark in Washington

Congressman Bill Archer, chairman of the influential House Ways and Means committee, yesterday proposed a $200bn reduction in US national debt over 10 years, and a cap on taxation at 19 per cent of gross domestic product.

The proposals were the Republicans' opening shot in what they have described as a "battle royal" over how to make use of an increasingly favourable budget outlook.

President Bill Clinton said earlier this month the budget could be balanced by the next fiscal year, starting October 1, because public finances were improving even faster than expected.

The president and the White House have cautioned against using the favourable position for a reckless bonanza of spending or tax cuts. But Mr Clinton is widely expected to suggest improvements to education and childcare when he lays out his budget proposals over the next two weeks.

Mr Archer said yesterday said that, despite this rosy background, the total tax take was 19.9 per cent of GDP, the highest level in US history, apart from the second world war. He cited a Congressional Budget Office forecast which projects a $660bn surplus over the next 10 years, and said this gave an opportunity both for tax relief and a reduction in the national debt.

The Texas Republican also announced a series of congressional hearings on a Taxpayer Relief Act which would consider proposals ranging from easing death taxes to simplifying capital gains tax.

He also proposed a fund to provide state governors with at least $1bn to be used on efforts to support family life through voluntary organisations, child support and incentives for fathers to stay with their children.

The money would be found by setting a cap on the fees received by lawyers involved in the "tobacco settlement" under which cigarette companies are limiting their liability for damage to public health.

The congressman called on Mr Clinton to reintroduce a comprehensive proposal to arm himself with fast-track authority to negotiate trade deals. The defeat of this proposal last year was a blow to the Clinton administration.

NEWS DIGEST

Castro call to welcome Pope

Pope John Paul II starts a historic five-day visit to Cuba today surrounded by a storm of speculation about its potential political impact on the communist-ruled Caribbean island.

The 77-year-old Polish pontiff, making his first visit to Cuba, will receive a red-carpet welcome from President Fidel Castro's government, which has made a public commitment to guarantee the success of the trip. Mr Castro has called on the citizens of Havana to turn out to greet the Pope and has urged Cubans to attend the open-air masses scheduled to be held in three provincial cities and Havana's Revolution Square during the January 21-25 visit. "We want the squares full... the Pope will like it," he said.

Dismissing media speculation that the Pope's past reputation as an anti-communist crusader in Poland could threaten Cuba's one-party socialist system, Mr Castro has hailed the visit as "an honour" for the revolution.

The Roman Catholic Church has gone out of its way to damp down speculation about the possible political implications of the visit. Cuban Cardinal Jaime Ortega said yesterday the Church should not be considered an "alternative power to endorse or destroy" the regime. Nevertheless, the Cuban Church expects to gain increased space for its religious, social and humanitarian activities through the visit. *Pascal Fletcher, Havana*

Editorial comment, Page 17

■ CANADA-ARGENTINA

Chrétien signs contracts

Canadian and Argentine business leaders yesterday signed some 70 contracts worth about $200m on the third leg of a four-country Latin American tour headed by the prime minister, Jean Chrétien. Deals were struck in the areas of mining, atomic energy and finance among others, underlining Canada's position as the third largest foreign investor in Argentina between 1995 and 2000.

"Canada and Argentina are natural partners," said Sergio Marchi, Canada's Argentine-born minister of trade. Plans to sign a free trade deal with Mercosur, the customs union representing Brazil, Argentina, Paraguay and Uruguay, in Buenos Aires yesterday were cancelled because of a trade dispute with Brazil. Mr Chrétien and Fernando Henrique Cardoso, Brazilian president, have agreed each to appoint a special envoy with a 30-day deadline to reach an agreement.

The row involves Canadian aircraft manufacturer Bombardier, which cancelled a $90m contract in December to buy 24 aircraft from the Brazilian company Embraer. If agreement is not reached Canada will take the dispute to the World Trade Organisation, said Mr Marchi. *Andrea Campbell, Buenos Aires*

■ PORT DEVELOPMENT

Bogotá seeks Japanese aid

Colombia yesterday requested a $1.5bn credit from the Japanese government to finance a project to develop the Pacific port of Buenaventura.

The request came from Maria Ema Mejia, foreign minister, who is on a tour of south-east Asia. She said the project would develop Buenaventura's existing port infrastructure and create rail and road access to the port. The project was the result of three years of planning and would take an estimated 10 years to complete, she added. *Adam Thomson, Colombia*

■ EU INTERNET SERVICE

Microsoft amends contracts

Microsoft yesterday said it would amend contracts with internet service providers in Europe to meet concerns from the EU's anti-trust authority. The conciliatory stance contrasts with its reluctance to abide by a US Justice Department order to unbundle its popular Windows operating system and its internet Explorer browser.

Microsoft Europe confirmed it would change contracts with about 30 European companies providing access to the internet after Karel Van Miert, EU competition commissioner, said a compromise was in sight. Mr Van Miert said Microsoft appeared prepared to offer remedies to clauses in contracts with service providers that were "flying in the face of competition". *Reuters, Brussels*

Banks put squeeze on HK companies

John Ridding and **Louise Lucas** on pressures arising from the 'Japan premium'

Hong Kong companies are facing a credit squeeze as banks in the territory take a defensive stance in the regional financial crisis and economic downturn, according to corporate executives.

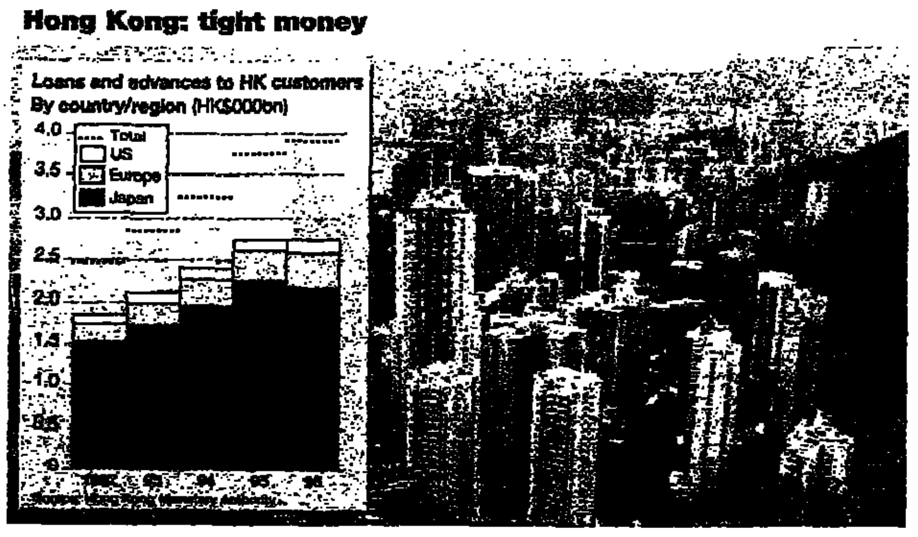
Credit constraints are being increased by Japanese banks' moves to curb loan growth. Japanese banks are the biggest foreign lenders in the territory but have seen profit margins erode as they are forced to pay a premium for funds in the inter-bank lending market.

"All banks are reviewing their exposures," said the finance director of one blue-chip company. "It is getting tight. If a bank reduces credit or refuses a new loan, it is hard to find a replacement."

For many Hong Kong companies under pressure from falling demand and rising interest rates, tighter credit increases the risk of failure.

Though Peregrine, the investment bank, collapsed because of problems overseas, it was unable to secure bridging funds from banks in the territory. Several fashion and retail companies have been placed under credit review by their banks.

Hong Kong: tight money



"They are just the high-profile names, but the pressure is winding up across the corporate sector," said the senior manager of one European bank in Hong Kong. He cited retailers and trading companies exposed to troubled regional economies as the biggest worry.

In addition to the heightened risk of default in Hong Kong, Japanese banks are facing their own pressures to tighten lending in the territory. "Because of the 'Japan premium' we make a loss on lending, so it's a pretty difficult situation," said Koji Tasaka of Sumitomo Bank in Hong Kong.

With concerns over the financial standing of Japanese financial institutions, Japanese banks are having to pay a premium of more than 80 per cent above other borrowers in the interbank market. "The 'Japan premium' is eating away all our spread," says the Hong Kong general manager of one of Japan's biggest banks.

Japanese banks are also trying to cut their asset base to meet Bank for International Settlements capital adequacy ratios. "Our assets are being squeezed and some of us have to reduce our loans," says one Japanese executive. Sumitomo, Fuji and Sanwa are among those thought to be reducing assets in Hong Kong. Mr Tasaka at Sumitomo says the bank is rolling over loans case-by-case and only lending to good customers.

With total loans from Japanese banks in Hong Kong exceeding HK$2,000bn (US$258bn) last year, retrenchment has significant implications for corporate liquidity in Hong Kong. The problem is worsened by a tightening in funds from other sources.

Even some of the territory's biggest companies are likely to find lending terms becoming tougher. Last Friday, Moody's lowered its debt rating outlook for Swire Pacific, Hysan Development and Wharf Holdings.

The US credit rating agency cited concerns about the potential for prolonged weakness in Hong Kong's office and retail property sectors. "Such weakness," said Moody's, "combined with other factors specific to each of the issuers, could impair the operating and financial strengths of the companies".

The higher costs of borrowing are also evident in the secondary debt market, where interest rates for Hong Kong companies have widened. Hutchison Whampoa's Yankee bond, a benchmark blue-chip issue, trades at more than 250 basis points above US treasury bonds.

Financial problems at C.A. Pacific Finance, a Hong Kong money lending business, highlight the need for regulation of margin finance companies, Donald Tsang, financial secretary, said yesterday, Louise Lucas reports from Hong Kong. Margin finance is widely used in Hong Kong to buy shares.

On Monday, regulators ordered members of Capital Asia group, a diversified property-to-securities group, not to conduct new securities, futures and foreign exchange business because of debt exposure to C.A. Pacific Finance, an associate company.

Japan's Fair Trade Commission orders halt to anti-competitive practices

Sony warned on PlayStation prices

By Michiyo Nakamoto in Tokyo

Japan's Fair Trade Commission yesterday warned Sony Computer Entertainment (SCE), maker of the popular PlayStation, to halt anti-competitive practices aimed at maintaining prices of PlayStation games machines and software in the Japanese market.

The JFTC claims that SCE, a unit of Sony, infringed Japan's anti-monopoly laws by fixing the retail price of PlayStation software and prohibiting the sale of used software.

SCE denied that it had fixed prices and that it was confident it had not infringed Japan's anti-monopoly law. SCE also said it would not accept the JFTC's order.

The JFTC move follows nearly a year of investigation into the company and highlights Sony's dominant position in Japan's video games market.

Sony's PlayStation has sold a cumulative 9.4m units in the domestic market, compared with 5.2m for Sega's Saturn and 2.47m for Nintendo's Nintendo64. The PlayStation's success had given it tremendous power in the market, analysts said.

The JFTC notes that SCE sets retail prices for software it has developed and negotiates retail prices for those that third parties have developed. SCE requires retailers to maintain the retail price and not to sell used software, the JFTC points out. SCE also conducts checks on retailers.

The charges are an embarrassment for Sony, which has been credited with building up an impressive video games business and taking on the industry giants, Nintendo and Sega.

Consumers are likely to benefit from the JFTC order, which could enable retailers to establish prices freely and lead to the development of a secondary market, notes Hironobu Sawake, industry analyst at Nikko Research Centre in Tokyo.

"Sony will have to be very careful about how it deals with its software inventories," says Masashi Kubota, industry analyst at ING Barings in Tokyo. The company's strategy of making it relatively easy for third-party developers to develop software for the PlayStation meant there there was a lot of poor-quality software on the market, which retailers could start bundling with the hardware itself, resulting in software and hardware price falls, analysts said.

US presses for further stimulus

By Gillian Tett in Tokyo

The US yesterday urged Japan to take more steps to support its economy, which according to a Bank of Japan report is now effectively "stagnant".

Thomas Foley, the recently appointed US ambassador to Japan, called on the government to give "consideration" to the need for new stimulus steps. His comments reflect growing unease among Japan's main trading partners that any downturn in Japan could further fuel Asia's financial crisis.

Yasuo Matsushita, governor of the central bank, said in the bank's latest monthly report: "Weak domestic demand has had a negative impact on production and incomes ... more cautious corporate and consumer sentiment is having a big effect on Japan's real economy as a whole."

These comments are likely to increase the pressure on Ryutaro Hashimoto, Japan's prime minister, to unveil additional stimulus measures.

Last month he announced Y2,000bn ($15.5bn) of income tax cuts and a proposed Y30,000bn support package for the ailing banks. However, opposition parties have warned that the Y2,000bn tax cuts will be insufficient to ward off the risk of recession. In recent days officials from the US and European Union have stepped up discreet pressure on the Japanese government to consider taking additional stimulus steps.

Mr Hashimoto has recently hinted he might unveil additional measures later in the spring if the economy deteriorates further. But though these hints have boosted the stock market more than 11 per cent in the last week, he has not made any firm pledges yet.

Mr Foley yesterday refrained from calling for specific new tax cuts.

Finance ministry faces reduction in powers

By Gillian Tett

Japan's ruling Liberal Democratic party (LDP) yesterday pledged to strip the Ministry of Finance of most of its responsibility for domestic financial markets, confirming what has been widely expected as the country deregulates its financial sector.

The announcement is a humiliating blow for the ministry, whose mandarins were once seen to have almost omnipotent control over the world's second largest economy. It follows months of political debate about the fate of the ministry.

It had been widely criticised for its role in the 1980s property "bubble", which paved the way for Japan's current economic difficulties. The ministry has also been embarrassed by the arrest of ex-employees in a widening corporate corruption scandal.

Some politicians have demanded the complete dismantling of the ministry as part of a broader plan to streamline the government.

Hashimoto: compromise

Until now, these plans have been fiercely resisted by some LDP members. However, Ryutaro Hashimoto, Japan's prime minister, yesterday said a compromise had been agreed.

The ministry's powers will be transferred to a body called the Finance Agency, which will be established next summer. The LDP backed away from stipulating any timetable for the change, but some observers suspect that bureaucratic opposition may water it down.

The compromise would remove ultimate control over domestic financial markets from the ministry, unless a severe crisis occurred, according to an LDP policy plan.

The ministry's banking, securities and insurance bureaux will be merged and their staff cut by around two-thirds to fewer than 100. About 300 of the 2,000 ministry staff will move permanently to the new Finance Agency, which will have ultimate control of financial regulation and policy.

The changes will still leave the ministry with responsibility for economic policy, currency markets and international financial relations.

Loan for Malaysian hi-tech hub

By Sheila McNulty in Sepang

Cyberview, the Malaysian company responsible for developing key parts of the country's Multimedia Super Corridor, said yesterday it would soon borrow M$1.6bn (US$380m) to build the infrastructure for what is planned to be a hi-tech international business hub.

Plans to take on such debt, when Malaysia's financial institutions are feeling the pressure of domestic debt already at 170 per cent of gross domestic product, shows the lengths to which the authorities will go to make a success of the nation's most grandiose project. Some of Cyberview's shareholders are close to the government.

Economists say the regional financial crisis will see non-performing loans jump from around 5 per cent last year into the high teens this year. Many financial institutions are hesitant to expose themselves to further risks at this point.

But the chief executive officer of Cyberview, Abdul Karim Abu Bakar, noted that the authorities had made the project a priority. "I'm confident we will get the money," he said. "We need financing fast."

Cyberview is to spend M$4bn – much of it collected through booking fees and outright purchases – to develop 2,800 hectares into an "intelligent city".

News of the loan plan comes just days after Michel Camdessus, IMF managing director, said interest rates should be raised to slow credit growth. Mahathir Mohamad, the prime minister, said authorities would look into raising rates but insisted the crisis would not affect the corridor project.

NEWS DIGEST

Thailand sets up rescue bank

Thailand's cabinet yesterday approved the creation of a state-owned commercial bank, finance company and securities company that will bid to buy performing assets of the 56 finance companies which the government shut down late last year.

The new bank, called Radhanasin (or Good Assets), will take part in an auction process planned by the country's Financial Restructuring Authority (FRA), which is overseeing the liquidation of the finance companies.

Radhanasin will have Bt4bn ($75m) in working capital, while the finance company and the securities company, which will bid for a more limited range of assets, will have Bt500m each. The capital is being lent to the Thai government by the World Bank and Asian Development Bank as part of their contribution to the $17.2bn international bailout package for Thailand.

FRA officials estimate that of the Bt930bn in assets held by the closed finance companies, about Bt200bn are still performing. To purchase all those assets at current prices and still maintain a healthy capital position, Radhanasin and its affiliates would need to raise four times their initial capital. *Ted Bardacke, Bangkok*

■ 1998 PROJECTIONS

Singapore warns on trade

Singapore's Trade Development Board projected yesterday that trade growth in 1998 would be between 3.5 per cent and 5.5 per cent but warned there could be a revision because of "volatility of developments in the region".

The board said Singapore's full-year, non-oil domestic exports increased just 5.3 per cent to S$91.6bn ($53bn) in 1997, with growth already slowed by the regional economic turmoil. December's non-oil exports increased 13 per cent from the year earlier to S$8.46bn. Total December exports rose 11 per cent on the year-earlier period.

The strong economies of the US and EU helped non-oil exports growth in December, while the lethargic growth in Japan had an adverse affect. Non-oil exports to the US rose 14.8 per cent in December over the year-earlier period, while non-oil exports to the EU increased 18.4 per cent. Non-oil exports to Japan fell by about 10 per cent. *Sheila McNulty, Kuala Lumpur*

■ OIL TARGET ATTACKS

Ramos orders tighter security

Philippine President Fidel Ramos yesterday ordered increased security around government offices and oil facilities, following a grenade and rifle attack earlier this week on an oil company and the Energy Regulatory Board.

Mr Ramos said he would not tolerate "barbaric" activities and appealed for "calm and understanding". The separate attacks on Monday came in the wake of an increase in oil prices last week. The Alex Boncayo Brigade, a breakaway faction of the Communist party, claimed responsibility for the incidents in which no-one was hurt. *Justin Marozzi, Manila*

■ PLEDGE OVER DONG

Hanoi resists devaluation

Vietnam's central bank yesterday said it would continue to resist calls for devaluation of the country's currency, the dong, despite pressure to act in the wake of the regional financial turmoil and falling exports.

"We have no policy to devalue the dong. We will just adjust the rate to be closer to the market exchange rate. And right now we're still positioned to manage the rate at a reasonable level," said Phi Dang Minh, deputy director of the foreign exchange department.

Hanoi's view of its currency is looking increasingly out of kilter with those of most bankers and economists, who say action is needed as the dong is overvalued by about 30 per cent. Exports of rice, a top foreign exchange earner, are suffering as buyers switch to cheaper and better quality Thai rice. Hard currency is in short supply with most economists saying foreign exchange reserves, worth about $2bn, are no longer rising. *Jeremy Grant, Hanoi*

■ FOCUS ON SMALL ENTERPRISES

German team in Indonesia

A delegation of bank and government officials sent to Indonesia by Helmut Kohl, the German chancellor, yesterday indicated Germany would offer "concrete proposals" to support small and medium-size enterprises in Indonesia. The team's visit comes as a result of a request by President Suharto. Germany may also offer technical help in drawing up a new central bank law.

The delegation welcomed Indonesia's focus on tackling economic problems but said "the government should perhaps also engage somewhat more in explaining the reforms in their overall context, the implications and their long-term benefits". German aid could require assigning German experts to work with the International Monetary Fund and World Bank. *Ralph Atkins, Bonn*

Taiwanese visit to Jakarta irks China

By Laura Tyson in Taipei

The arrival of Taiwan's premier, Vincent Siew, in Indonesia on another "secret" trip for talks with President Suharto on Asia's financial crisis yesterday provoked strong condemnation from Beijing.

China says Taiwan, which has been largely unaffected by the Asian financial crisis, is taking advantage of the region's economic difficulties to spread its influence.

Taiwan has been wooing troubled neighbours with its economic clout. A week ago Mr Siew made a surprise visit to the Philippines, where he met President Fidel Ramos and Mitsuo Sato, head of the Asian Development Bank. China, which regards Taiwan as a rebel Chinese province, then lodged a "severe" protest.

Taiwan, which says its relative financial health leaves it well positioned to help neighbours in distress, has mounted a bold drive to beef up its unofficial ties with the Philippines, Thailand, Malaysia and Indonesia.

An 80-strong delegation of Taiwan businessmen led by the cabinet economic policy chief, Chiang Pin-kung, has been touring the four countries to seek investment opportunities. Mr Siew's presence in Jakarta coincides with the mission's visit. Taipei has no official ties with any of the south-east Asian countries, all of which recognise Beijing.

"Activities by the Taiwan authorities are unpopular and doomed to failure," said Shen Guofang, China's foreign ministry spokesman. "We are resolutely opposed to any form of official contacts with Taiwan by countries having diplomatic relations with China," he said.

China is still smarting over Taiwan Vice President Lien Chan's New Year visit to Singapore – one of Beijing's closest friends in the region – and the rare stopovers in Taiwan by the Singaporean and Malaysian prime ministers.

Beijing's condemnation coincides with Taiwan's rejection yesterday of its offer to open "unconditional" political talks with the island. Taipei said the two sides should return to the technical negotiations severed in June 1995.

"We hope the two sides can start formal political talks as soon as possible," said Mr Shen. He said there were no pre-conditions to the talks but insisted that both sides must agree that there is only one China.

Sheu Ke-sheng, vice chairman of Taipei's Mainland Affairs Council, dismissed the appeal: "The so-called one-China principle itself is a pre-condition."

Beijing has always insisted talks be conditional on Taiwan accepting its "one China" principle – that the only China is the communist People's Republic and that Taiwan is part of it. Taipei maintains China has been divided into two sovereign entities represented by the People's Republic on the mainland and the exiled Republic of China on Taiwan since civil war ended in 1949.

China cut off the earlier cross-strait dialogue in June 1995, angered by a visit by Taiwan's president, Lee Teng-hui, to the US.

Sri Lanka stands by policy on rupee

By Mark Nicholson in Colombo

Sri Lanka's central bank will resist calls to devalue the rupee to meet competitive pressures caused by the south-east Asian currency crisis, but will continue to "adjust" the currency where necessary, according to A.S. Jayawardena, central bank governor.

Recent currency falls in Thailand, South Korea, Malaysia and Indonesia could harm Sri Lankan exports, especially of garments, but the central bank was monitoring the rupee's competitiveness daily and adjusting accordingly, Mr Jayawardena said in an interview.

The rupee continued its managed slide, closing yesterday at 62.14 to the US dollar, having depreciated almost 8 per cent since the currency storm began six months ago. "The appropriate response is not to panic... and get the house collapsing, or you end up by feeding speculative instincts," Mr Jayawardena added.

But he said the bank was daily monitoring the rupee against a basket of 24 currencies of trading partners and rivals. "Our index will show if there is a loss of competitiveness; then we will continue to adjust."

The central bank largely manages the rupee's rate, setting daily indicative quotes based on its own assessment of the rupee's competitiveness and on daily market movements.

The International Monetary Fund has called the policy "appropriate" for Sri Lanka, though urging more flexibility in moving the rupee in response to market changes.

Central bank officials say Sri Lankan exports have so far mostly weathered the exchange rate shocks, with average export growth sustaining 14 per cent to the end of the calendar year. Garment exports, accounting for 46 per cent of Sri Lanka's export earnings, have also remained largely unaffected.

However, some export associations have urged the bank to devalue the rupee to about Rs70 to the dollar. Socgen-Crosby, the investment house, said last week it estimated the rupee to be 20 per cent, arguing that garment, gem and ceramics exports would be hurt by sharper devaluations in Thailand, Indonesia and the Philippines.

NEWS: WORLD TRADE

Talks seek sharp rise in flights but want price regulation kept intact

US, Japan aim at new air deal

By Nancy Dunne in Washington

Washington and Tokyo this week are expected to produce a framework agreement to liberalise bilateral air travel which would sharply increase the number of flights but leave price regulation intact.

The latest round of talks will fall short of the desired finish line, observers say, due to outstanding technical details and a demand by the powerful chairman of the Senate foreign relations committee that a final deal should not be concluded before he holds a hearing on February 12.

Senator Jesse Helms is concerned that any deal short of full liberalisation or "open skies" will set a bad precedent for other aviation negotiations to be conducted with Asian countries. He has said any deal short of full "open skies" will enable other airlines to "avoid making tough choices of reform and transparency".

The US has been seeking a deal for some time because Japan has been denying both US commercial and cargo carriers the right to land in Japan and fly on to other destinations, known as a "beyond right".

The US says that right was guaranteed in a 1952 air pact, but Japan has argued that the 45-year-old pact is outdated.

Under the new pact, US carriers will get increased "beyond rights". Federal Express is expected to be granted its long-delayed petition to fly on to China and the Philippines from Japan. American, United and Continental airlines will get about 90 new flights to Japan which would be shared with US Airways and TWA.

United will increase its flights from Chicago to Tokyo from six per week to 14 and add new flights to Osaka.

All Nippon Airlines (ANA) and Japan Airlines (JAL) would immediately expand their flights into the US. United is expected to conclude a code-sharing arrangement with ANA, and American with JAL.

Northwest, the airline which has most flights to Japan, is pushing for the right to team up with other US airlines, or airlines from third countries.

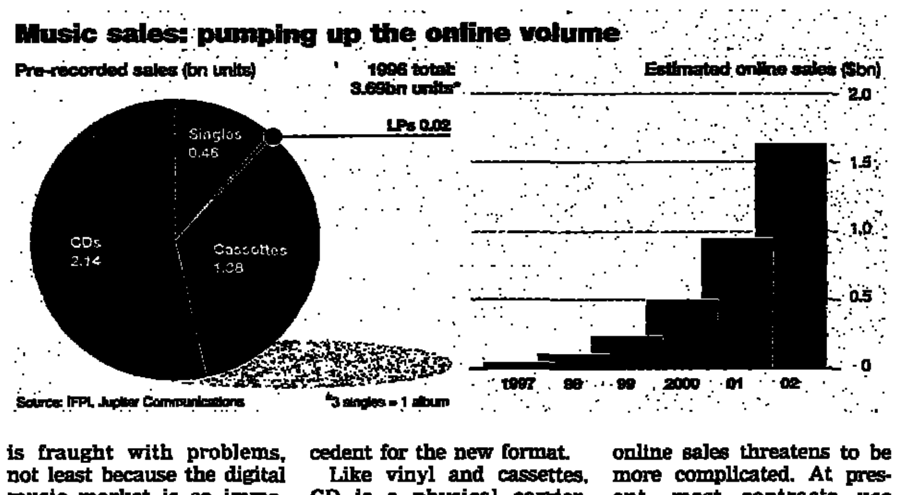
The US sought to end Japan's power to veto lower prices but failed to secure a commitment within the framework deal.

It also unsuccessfully urged a date by which Japan would agree to implement total liberalisation. Instead, the two sides have agreed to return to the bargaining table in three years.

Discord over online music royalties

When George Michael, the pop singer, mounted an unsuccessful legal case in 1994 to rescind his record deal with Sony Music, one of his complaints was that his royalties on compact disc sales were too low.

After the launch of CDs in the early 1980s, Sony and other multinational music groups paid their acts a lower royalty on sales of the new format than for vinyl or audio cassette until they recouped development costs. Mr Michael and other stars claimed that record labels maintained the reduction for too long.



Such rows seem set to erupt again as record companies prepare to negotiate the terms of payment for distributing digital versions of their artistes' recordings on high-speed cable television and telecommunications systems, or over the internet.

"This is going to be a huge bone of contention," said John Glover, chairman of the International Managers Forum, which represents artistes' managers. "Many artistes and managers were caught unawares by CD in the 1980s. This time we'll fight them tooth and nail."

Lingering resentment over CDs' launch is not the only difficulty. Deciding how to pay artistes for online sales is fraught with problems, not least because the digital music market is so immature that no one knows what the record companies' costs will be.

Nor can the industry predict whether consumers will purchase music online as complete albums to be stored on computer hard discs, or buy it on a per-play basis after which it disappears from the hard disc.

The wrangles over CD remuneration may have been acrimonious, but both camps agreed early on that the existing system – whereby artistes were paid a royalty, or percentage of the wholesale price for each of their recordings sold on vinyl or cassette in Europe, or the retail price in North America – set a sensible precedent for the new format.

Like vinyl and cassettes, CD is a physical carrier, which is sold by record labels to a wholesaler, retailer or mail order house. Most labels agreed to pay the same royalty for CD as for vinyl or cassette, subject to a temporary reduction while they recovered research and development costs.

Some companies, such as Sony, renegotiated each artiste's contract on an *ad hoc* basis. Others, notably Warner Music, part of the Time Warner entertainment group, wrote to all their acts offering a similar formula. Most disputes centred on the level of royalty reduction, and its duration.

Agreeing an acceptable method of payment for online sales threatens to be more complicated. At present, most contracts use ancillary clauses to give the record label the right to distribute digital versions of music.

The terms of such clauses vary widely. Some acts are entitled to more than they would receive by selling CDs or cassettes, and others to considerably less. Both sides of the industry accept that, as the digital music market develops, these clauses will have to be renegotiated.

The consensus among record companies is that they expect to pay artistes a similar level of royalties when their recordings are digitally downloaded, as if they had been sold as CDs or cassettes.

However, artistes and managers claim that online royalties should be higher than for CDs, because record companies will not incur any manufacturing or packaging costs and, in some cases, will supply the music directly to consumers, thereby keeping the retailer's share of profits.

There is also concern that royalty-based remuneration may be inappropriate if consumers buy music on a per-play basis. Tony Russell, senior partner at Russells, one of the UK's larger entertainment law firms, suspects that, in such cases, artistes may ask for a share of net receipts, rather than of the wholesale or retail price.

At present digital music sales are limited to small trials, but the market is expected to take off this year and to be worth $1.64bn, or 7.5 per cent of global record sales, in 2003, according to Jupiter, a US research consultancy. Warner, Sony and other multinationals are now in talks with Deutsche Telekom to participate in a music-on-demand service, which will be available to more than 1m German homes this summer.

"As soon as a big deal is in place, with Deutsche Telekom or anyone else, we'll all be asking for the facts," said Mr Russell. "And then we'll start negotiating."

Alice Rawsthorn

Australia tourism industry in protest

By Gwen Robinson in Sydney

Australia's tourism industry yesterday attacked the government's decision to help exporters hit by Korea's currency crisis with about A$300m (US$200m) in emergency trade finance guarantees.

The protests came after the industry and tourism minister, John Moore, ruled out financial assistance to the tourism sector, only minutes after announcing an emergency short-term credit insurance package for exporters to Korea.

Australian exporters complained that many Asian buyers, particularly in Korea, could no longer secure letters of credit to cover the purchase of Australian commodities. Without extra government assistance, Australia would not be able to compete, they said.

At the same time, tourism executives said their industry was facing equally severe conditions. They warned that collapsing Asian business could cut Australia's tourism earnings, which last year amounted to about $16bn.

Their concerns intensified when Qantas and Ansett, Australia's two international airlines, cancelled flights between Australia and Korea. Qantas also said it would suspend some services to Asian countries, including Thailand, Malaysia and Indonesia.

On Monday, tourism groups submitted a request for government funding for a special "reinvestment campaign" to promote Australia outside Asia.

"Common sense suggests tourism should be included in any assistance package related to the Asian financial crisis, given the industry's role as a major job provider and industry of the future for Australia," said Bruce Baird, managing director of the Tourism Council of Australia.

NEWS DIGEST

Japan stays top ship exporter

Japan maintained its position as the world's leading ship exporter last year for the fourth year running, but South Korea was close behind in terms of gross tonnage.

Japanese shipbuilders won overseas orders for 310 ships, or 12.96m gross tonnes, during 1997 while Korean rivals took orders for 200 ships, or 12.74m gross tonnes. Japan and Korea together build more than two-thirds of the world's ships. Despite difficult conditions, shipbuilding export orders in Japan almost tripled in December from a year earlier to 37 ships, for delivery between 1999 and 2002. However, the Japan Ship Exporters' Association said the outlook for 1998 was poor due to uncertainty over the yen and instability in Asia.

Competition for a smaller total number of orders could also intensify, as the collapse of the won could be to Korea's advantage. However, a heavy reliance on imported materials means the weaker won raises costs at the same time as it improves export prospects.

Bethan Hutton, Tokyo

■ PORSCHE JAPAN

Dealership dispute settled

Porsche, the German sports carmaker, has settled its dispute with its former Japanese importer, Mizwa Motors, which took legal action after the contract between the two companies was terminated last year. Porsche Japan, which handles distribution of the cars, will continue to work with eight Mizwa Motors dealerships, as well as 16 independent operations. Agreement has also been reached for three Subaru dealerships to sell Porsches.

Mizwa Motors filed an injunction last autumn in a court in Stuttgart – where Porsche is based – claiming the German company's termination of the contract was unjustified. Porsche said it had acted in accordance with the contract. The court rejected Mizwa Motors' claim, but the two sides continued to negotiate. Last year, Porsche raised sales in Japan, its most important foreign market after the US, by 9 per cent to around 1,700 cars at a time when the imported car market showed a slight overall decline.

Andrew Fisher, Frankfurt

■ FILM DISTRIBUTION RIGHTS

EU takes Canada to WTO

The European Union yesterday took its dispute with *Canada over film distribution rights to the World Trade* Organisation. The dispute centres on Canada's refusal to allow PolyGram, the Dutch entertainment group, to distribute foreign films in Canada, while established US competitors – which control 84 per cent of the Canadian film distribution market – face no prohibition. Brussels says this discrimination runs contrary to international trade rules.

In 1987, Canada decided only companies financing film production in Canada or owning worldwide distribution rights could distribute in the domestic market. However, it exempted US film groups already operating in the country. Polygram, despite investing heavily in the Canadian film-making industry, has consistently been refused permission to distribute "third party" films. Under WTO procedures, if bilateral consultations fail to produce a settlement within 60 days, the EU can ask for a panel to investigate the complaint.

Frances Williams, Geneva

NEWS: INTERNATIONAL

Bid to break arms inspection deadlock by drawing outsiders into technical talks

UN agrees concession to Iraq

By Laura Silber in New York

The chief United Nations arms inspector, Richard Butler, yesterday agreed to include outside experts at technical talks in an effort to persuade Iraq to co-operate with his disarmament mission.

The agreement came as Russia's foreign minister, Yevgeny Primakov, called for a wider number of countries to be represented in the UN disarmament mission (Unscom), diluting the American presence.

Mr Butler held two days of talks in Baghdad with Iraq's deputy prime minister, Tariq Aziz, in an effort to break the deadlock over weapons inspections and win access to suspected weapons sites Baghdad has put off limits.

Speaking ahead of a final session with Mr Aziz, Mr Butler last night said Iraq had not turned over fresh files on its weapons of mass destruction. "I was basically told there will be no new information. In hard, substantive terms of disarmament, that is probably the most dispiriting thing that has been said in the last few hours," Mr Butler said in an interview with Reuters.

Fred Eckhard, UN spokesman in New York, said the two sides had agreed to hold meetings with technical experts from the five permanent Security Council countries and Germany on Iraq's ballistic warheads and the nerve gas VX.

The move to expand the group of experts was aimed at dispelling Iraqi complaints that the US and Britain dominate Unscom to keep strict sanctions in force. The UN imposed sanctions, including an oil embargo, after Iraq invaded Kuwait in August 1990.

Mr Primakov, who broke the last standoff with Iraq in November, *yesterday* appeared to back Iraq. "The American representatives on these inspection operations should not be ousted but probably they should recruit more international personnel, from France, Germany and even Russian experts," he told a news conference at the Barents Euro-Arctic Council ministers' meeting in Sweden.

An Unscom official yesterday suggested that British and US officials might be replaced in the mission following a Russian offer last week of 80 experts.

It *remained* unclear whether Iraq's President Saddam Hussein would now abandon a threat to expel UN arms inspectors within six months unless they certify that Iraq has dismantled its arsenal of deadly weapons.

The last standoff with the UN began last week when Iraq blocked an inspection team led by former US Marine officer Scott Ritter on the grounds he was a spy.

Russia raises Turkmen hackles

Heavy-handed move to control energy resources is upsetting former Soviet states

The sight of Victor Chernomyrdin, Russia's prime minister, waving a big pointer stick at a regional map seemed to Turkmenistan's leaders to sum up everything wrong in the relationship between the two countries.

In recent weeks, Russia has been scrambling to reassert its influence in the resource-rich former Soviet republics of central Asia.

But diplomats suggest that Russia's hegemonic attitude, combined with its heavy-handed attempts to control the development of central Asia's energy resources, may only encourage the five republics to develop stronger ties among themselves, and with other powerful neighbouring states, such as Turkey, Iran and China.

The shifting balance of influence was graphically highlighted last week when Mr Chernomyrdin made a rare visit to Turkmenistan and Tajikistan in an attempt to patch strained relations.

Mr Chernomyrdin, former head of the giant Gazprom gas monopoly and one-time senior member of the Soviet Communist party, still appears uncomfortable with the fact that such countries are now independent sovereign states. Indeed, he seemed more intent on lecturing the region's leaders than on listening to them.

The Turkmen leadership visibly bristled at such a stance and Saparmyat Niyazov, the Turkmen president, condemned Moscow's lingering imperialistic attitudes.

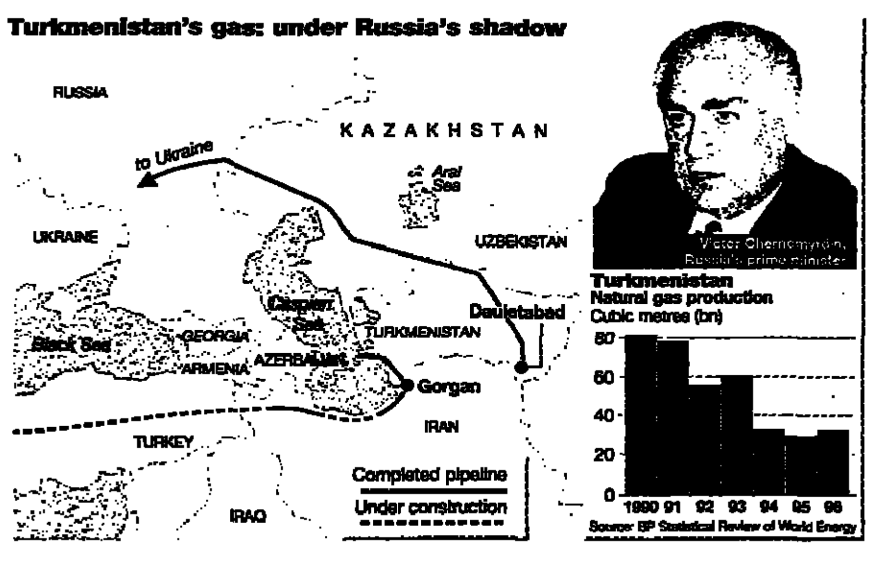
At the heart of these tensions is the issue of gas. Gas accounts for two-thirds of Turkmenistan's export revenues. But in practice, the country gets paid in cash for only about half of its gas exports to the rest of the Commonwealth of Independent States (CIS), and Gazprom has shut competing Turkmen gas out of the currency markets in Europe.

Last March, Russia even cut off Turkmenistan's northern pipeline to Ukraine and the Transcaucasus after Mr Niyazov suspended a Russian-Turkmen gas venture, in which Turkmenistan received a 51 per cent share.

The move hit Turkmenistan's economy hard, and gas output more than halved in the first 11 months of 1997 to 15.8bn cu m compared with the same period in 1996.

Both sides had hoped Mr Chernomyrdin's visit could help resolve the dispute but failed to agree over the price of Turkmen gas.

Russia raised its initial offer from $32 per 1,000 cu m to $36, but Mr Niyazov stuck out for $42. "We will come to the price we have suggested. Agreement can be reached only on a mutually advantageous basis, which is a purely economic theme, instead of political," he said.



Nevertheless, the Turkmen leadership suggested Mr Chernomyrdin's visit had marked the beginning of a more open relationship and expressed the hope the dispute could be resolved before the visit in March of Boris Yeltsin, Russia's president.

The Russians would certainly appear to have considerable leeway to meet Turkmenistan's demands. Russia currently sells gas at the Ukrainian border for $83 per 1,000 cu m, and at more than $90 in western Europe.

But some believe Russia was only brought to the negotiating table by Turkmenistan's developing relationship with Iran. Last month, the first natural gas from Turkmenistan was pumped into northern Iran. It was the official opening of a pipeline which will be capable of exporting 20 bn cu m per year to the lucrative market of Turkey.

Turkmenistan may be using the threat of the project to elicit concessions from Gazprom. The country, with roughly 10 per cent of the world's total gas reserves, provides potential competition in the coveted Turkish and European gas markets.

Mr Niyazov has the last word: "We welcome democratic Russia. But we should all face the fact that the Soviet Union has collapsed. If we did, there would be no mutual tensions or *quarrels.*"

John Thornhill and Charles Clover

Israeli PM offers troops pull-out

By Bruce Clark in Washington

Benjamin Netanyahu, Israel's prime minister, yesterday put to President Bill Clinton a cautious proposal for troop withdrawals from the West Bank, and insisted he could muster support for it from his increasingly hawkish cabinet.

The State Department said afterwards the two leaders' meeting had "gone extremely well". The scope and pace of Israeli redeployment from the occupied areas are expected to be at the centre of Mr Clinton's talks this week with Mr Netanyahu and Yassir Arafat, president of the Palestinian Authority.

"We have made a decision to go for peace," said Mr Netanyahu, who has been using his US visit to muster support from Christian conservative groups as well as his traditional backers in the Jewish community.

He declined to give details of his latest ideas on redeployment but said they involved a "withdrawal that will assure our defences".

Mr Clinton is according his Israeli visitor a relatively low-key welcome. But US officials have played down suggestions this amounts to a rebuke to Mr Netanyahu's tough policies. His reception is line with the normal procedure for a working visit, officials have insisted.

Asked if he intended to put pressure on the Israeli leader, Mr Clinton said: "I would not use that word. What we ought to talk about is what both sides can do now" to restart the peace process.

● The International Finance Corporation, the World Bank arm for private investment, yesterday launched a $100m-$200m closed-end investment fund to invest in companies in the West Bank and Gaza. The fund is aimed at promoting joint ventures between Palestinian and Israeli investors.

NEWS DIGEST

EU sees progress in Algeria talks

The European Union delegation to Algeria said yesterday *it had made progress in its dialogue with the government* but expressed disappointment that Algiers was not ready to allow United Nations rapporteurs from Geneva to look into the human rights situation.

After a delicate 24-hour visit to Algiers, during which the team met Algerian officials, leaders of the legal opposition and editors of leading newspapers, its head, Derek Fatchett, the UK junior Foreign Office minister, reassured Algiers of the EU's condemnation of terrorism and its "determination to prevent terrorist attacks and bring terrorists to justice". But EU officials said they were waiting for Algiers to provide specific suggestions and evidence of accusations that some European countries were harbouring terrorist networks.

Mr Fatchett urged Algiers to allow more foreign journalists into the country and reiterated the EU view that transparency was in the government's interest. The delegation will report to the EU foreign ministers' meeting on January 26. The EU presidency now held by the UK invited Ahmed Attaf, foreign minister, to London to continue the dialogue. EU officials were treading carefully in Algiers since the government rejects any form of foreign interference in its six-year conflict.

While the EU was holding its meetings, a bomb exploded on a bus in central Algiers, leaving one person dead and 23 wounded. The Algerian press also reported at least 33 people had died in attacks since last weekend.

Roula Khalaf

■ ZIMBABWE RIOTS

Government sends in troops

After another day of rioting and looting in Harare, the Zimbabwe government sent in the troops to restore order. The home affairs minister, Dumiso Dabengwa, said the entire army had been put on the alert in case the riots, sparked by a 21 per cent rise in the price of the food staple *maize, spread to other parts of the country.*

He said the government would not neglect its duty to maintain law and order in deference to "democratic rights", adding that it was clear the disturbances had been orchestrated as well as spontaneous.

For the second day much of Harare city centre was shut, while in the industrial sites on the outskirts of the city and in townships millions of dollars of damage was done, according to witness reports. Businessmen said factories and vehicles were stoned, while police used helicopters to "bomb" rioters with tear gas.

The industry minister, Nathan Shamuyarira, announced that the millers had agreed to retain maize meal prices at existing levels, abandoning their planned 21 per cent increase. The move could result in a subsidy to the Grain Marketing Board. *Tony Hawkins, Harare*

■ LANDMINES CONTROVERSY

Clinton urges export ban

President Bill Clinton yesterday urged the United Nations conference on disarmament to negotiate a global ban on the export of landmines, as a first step towards a comprehensive UN treaty to outlaw the weapons.

● The US has publicly backed Gro Harlem Brundtland, former Norwegian prime minister, as the next head of the World Health Organisation to succeed Hiroshi Nakajima when he steps aside in July. *Frances Williams, Geneva*

Row over HK cash hits Conservatives

By John Ridding in Hong Kong and John Kampfner in London

The opposition Conservative party was last night embroiled in a fresh funding controversy after William Hague, the party leader, said he would return a £1m donation from a Hong Kong media group only if it was proved that the money had come from illegal sources. The Oriental Press Group claimed senior party officials knew of conditions attached to the donation. The media company, which is controlled by the family of a businessman who fled Hong Kong for Taiwan to avoid drug trafficking charges in 1978, described the conditions as "a private affair". This is thought to mean the dropping of drug-trafficking charges against Ma Sik-chun, founder of the group.

The Oriental Daily News, the group's flagship newspaper, yesterday printed a letter from Ma Ching-kwan, son of Ma Sik-chun and an executive director of the family company.

The letter, sent to Brian Mawhinney, then chairman of the Conservative party, a month before last May's UK general election, said "commitments" had not been honoured and that the £1m sum should be returned.

Conservative headquarters refused to comment on the disclosures directly. The governing Labour party called on the Conservatives to hand the money immediately to charity. Mr Hague repeated his pledge to support legislation banning foreign donations. "We have not accepted any money with strings attached," he said.

"We would not accept money from illegal sources. If ever that turned out not to be the case, if it had been proved that was not the case, then of course the money in question would be returned." Aides of Mr Hague said the onus of proof did not lie with the Conservative party.

The timing of the allegations was particularly unfortunate for Mr Hague, who has sought to draw a line under the sleaze sagas that afflicted the previous Conservative government.

In his letter to Mr Mawhinney, Mr Ma said he and his family had been a "frequent and major contributor" to Conservative coffers. Referring to "various conversations regarding my family's expectations in supporting your party at a difficult time in its history", he said: "There is no doubt that the expectations of my family were clearly understood by all concerned."

Chris Patten, former UK governor of Hong Kong, denied a suggestion by the group that he had been involved in the fundraising. "I played no part whatsoever in raising funds for the Conservative party as governor of Hong Kong," he said. "It would have been wholly wrong to play a role in Conservative party fundraising."

Cash leaves sour taste for party

The Conservative party is just the latest target in the sights of Hong Kong's Ma family. Claims in the Oriental Daily News, the group's flagship newspaper, that the Conservative party accepted a £1m contribution but failed to deliver on conditions has again placed the company firmly in the headlines. It follows feuds with other local publishers, notably the South China Morning Post.

The latest assault centres on sensitive claims – both about British political funding from the territory's tycoons and the background of the Ma family. In a series of articles this week, the Oriental Press alleges that a £1m donation to the Conservative party in 1994 was made with certain conditions on a "personal matter".

Although officials at the newspaper group decline to elaborate, it is thought to mean assistance with the dropping of charges against Ma Sik-chun, one of the founders of the Oriental Press and father of Ma Ching-kwan, now an executive director but considered the main power at the company.

C.K. Ma's father and his uncle, Ma Sik-yu, known as "white powder Ma", left Hong Kong for Taiwan in the 1970s amid allegations of drug trafficking. Ma Sik-chun had appeared in court in the 1970s on a drugs charge, but then disappeared. It later emerged he had travelled by fishing junk to Taiwan, where he has remained.

While keeping silent on the specific conditions attached to the donation, the Oriental Press is now kicking up a storm about funds. An alleged receipt for a £1m donation, invitations to dine with John Major, and a Downing Street menu from September 1994 have all been splashed across the Oriental Daily News.

The newspaper claimed a former senior Hong Kong official had used MI6 contacts to besmirch C.K. Ma's reputation in Australia. A letter reprinted yesterday, which had been sent to Brian Mawhinney, then Conservative party chairman, claimed that senior Conservative officials knew of the conditions for the donation.

"Various conversations regarding my family's expectations in supporting your party at a difficult time in its history took place with Lord Hambro, Sir Philip Harris, Rt Hon David Mellor and other senior parliamentary members of your party," said C.K. Ma in his letter. "There is no doubt in my mind that the expectations of my family were clearly understood by all concerned."

Mr Mellor declined to comment. Lord Hambro and Sir Philip could not be reached. William Hague, the Conservative leader, said: "When I became leader of the party, I made it absolutely clear we are not accepting any foreign money in future."

In another swipe at the former British administration, the Oriental Press claimed it had been betrayed over the establishment of the Eastern Express, an English-language daily newspaper which was launched in 1994. According to the Oriental Press Group, the Express had been launched with the backing of the British administration and the promise of government advertisements. The administration, it claimed, sought a counterweight to the South China Morning Post, which had been acquired by Robert Kuok, a prominent businessman with strong connections in China.

An official in the former administration described the claims in the Oriental Daily News as "rubbish".

Whether let down by the administration or not, the closure of the Eastern Express in July 1996 came as a blow to C.K. Ma. The title had been launched with high hopes.

Mr Patten said yesterday: "I played no part whatsoever in raising funds for the Conservative party as governor of Hong Kong. It would have been wholly wrong to play a role in Conservative party fundraising."

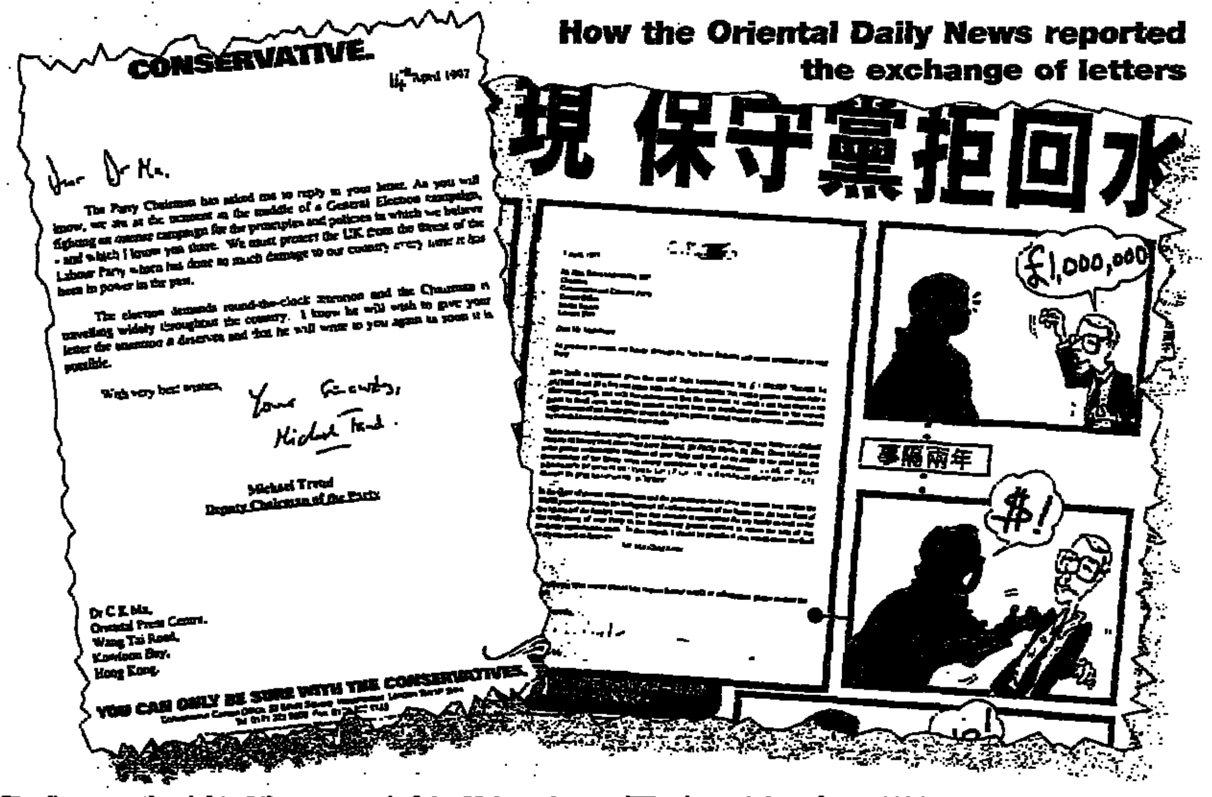
The collapse of the Eastern Express amid heavy losses was the first failure for the group, which had grown since its foundation in 1969 to become one of the territory's biggest publishing groups, with annual sales of HK$2bn, and with the Oriental Daily News commanding a dominant position in the Chinese-language press.

The closure was accompanied by the retirement of C.K. Ma as group chairman and his replacement by his brother Ma Ching-fat. But his influence remains strong at the newspaper group, while the newspaper itself has taken an increasingly aggressive tone towards the establishment.

Following a ruling against it in an appeals court, the Oriental Daily said it would "teach a lesson" to Gerald Godfrey, the presiding judge, and sent reporters to pursue him. Other recent attacks against the judiciary included a column entitled "The Judge is a White Pig".

Legal groups, human rights bodies and even the territory's legal department reacted with concern. The secretary for justice said her department was examining whether proceedings for contempt of court could be taken "as a matter of urgency".

How the Oriental Daily News reported the exchange of letters



The figure on the right of the cartoons is John Major, who was UK prime minister from 1990 to 1997

UK NEWS DIGEST

Expansion hope for City airport

John Prescott, deputy prime minister and chief transport minister, yesterday intervened in a dispute about doubling the number of flights at London City Airport in the Docklands district in the east end of the capital.

London City Airport wants to double flights from 36,500 to 73,000 a year to meet growing demand for travel to European cities from City of London business people.

Mr Prescott's intervention came as the London Docklands Development Corporation's planning committee decided provisionally in favour of the plan. It faces a rival in Southend Airport, some 75km east of London, which has just won outline permission for a new railway station and terminal building which would allow it to cater for up to 300,000 passengers a year in the same market.

Passenger numbers at London City grew by 70 per cent to 1.2m last year. Its plan would allow it to take 3m passengers by 2005. Many local residents have objected to the increased noise.

London City, built ten years ago by Mowlem, was bought by Irish entrepreneur Dermot Desmond for £23.5m ($38.30m) in 1995. It moved into operating surplus in 1996. Flights go to 20 destinations including Paris, Amsterdam, Brussels and Zurich. *Brian Groom, London*

■ BRITISH AIRWAYS

Check-in computer crashes

The British Airways' check-in computer system crashed yesterday, resulting in the cancellation of 30 flights. BA said the crash was caused by a power failure at one of its buildings at London's Heathrow airport.

BA said that the failure affected its computer system worldwide, causing delays to flights from several airports. However, cancellations were limited to London. The airline had to cancel two departures from London Gatwick airport and 18 European flights and long-haul flights from Heathrow.

BA said it could not say how many passengers were affected, although it is likely to have been several thousand. The airline said it had booked all passengers affected on to other flights. The airline said it did not expect the failure to affect today's flights.

The scene at Heathrow's Terminal 4 yesterday morning was one of confusion, with long queues at paralysed check-in desks. There were groans when BA staff announced the cancellation of flights to many destinations, including Dubai, New York, Montreal and Tokyo. *Michael Skapinker and George Parker, London*

■ HEATHROW RAIL LINK

Breakdown setback for service

The £550m ($895m) fast rail link between Heathrow airport and central London suffered a setback on its first day of operation on Monday when one of its trains broke down.

The Heathrow Express service, which runs from London Paddington station every 15 minutes, was suspended in the evening, nearly three hours before the scheduled last train of the day. A rescue train sent to haul the failed unit to a depot also broke down.

The Heathrow Express will be a faster and more expensive alternative to the present London Underground service, which follows a different route from central London to the airport. *Charles Batchelor, London*

■ SOUTH KOREAN INVESTMENT

Halla pledge to protect factory

Halla Euro Enterprise, an offshoot of the Halla shipbuilding conglomerate of South Korea which was declared bankrupt last month, yesterday announced job cuts at its excavator and lift truck factory in South Wales.

The factory, opened by Queen Elizabeth last May, was the first South Korean factory in Wales. Managing director S.J. Kim pledged that the company intended to keep the plant open: "During the last two months, Halla has been reconsidering its European business plan and has reluctantly concluded that the current economic situation in the Far East makes it more cost effective to increase imports from Korea of the equipment that Halla sells in Europe."

■ FORD PROJECT IN US

Visteon to invest $35m in plant

Visteon, Ford's components subsidiary, is investing £22m ($35.86m) in its factory in Swansea, south Wales, to make parts for a new vehicle in the US.

The company said the spending reflected labour flexibility at the plant, which makes car parts such as axles, brake drums, discs and hubs. The new contract is for an aluminium transfer case to be fitted to a Ford vehicle, as yet unidentified. *Haig Simonian, London*

■ CREDIT CARD SPENDING

Slowdown 'reflects rate increases'

Growth in credit and debit card spending slipped in December to its lowest rate for more than a year according to the Credit Card Research Group. It said the slowdown reflected the five interest rate increases imposed since last May and the shrinking pool of retailers who decided to accept cards in payment for the first time.

The first official estimate of total retail sales for December will be published today. Credit and debt card spending totalled £10.3bn ($16.78bn) in December, up 13 per cent on a year earlier.

Monthly card spending was showing 25 per cent growth early in 1997 and 15 per cent as recently as November 1997. Elizabeth Phillips, director of the group, predicted that the deceleration in growth would continue into the current year. *Robert Chote, London*

Output of cars hits 20-year record

By John Griffiths in London

Car production in the UK reached a 20-year record last year, with nearly two out of every three cars built destined for export, government figures showed yesterday. A total of 1,697,966 cars was produced, up 1 per cent on 1996, with output of 2m a year projected for early next century.

But the motor industry also disclosed yesterday that its success, reflected in nearly 2m annual sales and a car population expected to reach 28m next year, is being achieved at a heavy cost.

The annual bill for road congestion last year reached £10bn ($16.3bn), according to the tenth annual Lex Report on Motoring, commissioned from the Mori polling organisation by Lex Service, the UK car distribution group.

Congestion has added an average of two and a half hours a week to work-related journeys since 1990: £500m a year to the cost of shopping trips and £600m to that of the morning school run, according to the report's survey of 1,500 car and truck users. The report predicts that the car population will rise over the next five years by 10 per cent.

The enormity of the task faced by the government to persuade motorists – about half the electorate – out of their cars and on to trains and buses was also underlined. The report found that without big investment to make public transport more attractive, only 7 per cent would willingly use public transport even if congestion were to double over the next few years.

External regulation for Lloyd's is backed

By Christopher Adams, Insurance Correspondent

The government is to back proposals that the Lloyd's of London insurance market be regulated externally. A statement ending the uncertainty that has surrounded the insurance market's future may come today.

Helen Liddell, a minister at the Treasury, is expected to endorse proposals put forward by Lloyd's last year that it be brought under the Financial Services Authority, the new integrated regulator for the City of London.

The future of the regulatory regime governing Lloyd's has been in doubt until now. The government did not mention the insurance market when it launched the FSA last October.

But Lloyd's was confident its plans would be incorporated in the new Financial Services Act when it is published in draft form this summer. It says the switch to external oversight could be made without amending the Lloyd's Act, which gives it statutory powers to regulate its own affairs.

"We have had close discussions with the government and so far there have been no insurmountable obstacles," said David Gittings, Lloyd's director of regulation. The Treasury may recommend that the FSA has powers enabling it to take action were Lloyd's to fail in its own day-to-day regulatory duties. It is also considering whether managing and members' agents operating at Lloyd's should be licensed by the FSA.

In addition, rules governing the auction system, under which the right to participate on Lloyd's insurance syndicates is sold, may need to be brought into line with regimes governing exchanges elsewhere.

Inadequate regulatory control was partly to blame for the disastrous losses Lloyd's suffered in the late 1980s and early 1990s.

Lloyd's yesterday announced plans to tighten regulation of insurance brokers, the intermediaries acting on behalf of clients with whom it transacts business, and members' agents, who advise capital providers.

Mr Gittings said it would require brokers to register individually and meet new codes of conduct. Members' agents would have to conform with standards that apply to other financial advisers. Some members' agents could face disciplinary action following an investigation into the quality of advice given to Names, Lloyd's traditional backers, during capacity auctions.

An inquiry into underwriting activity has shown concerns about the possible reappearance of a damaging "spiral" of reinsurance were unfounded.

Dutch premier chides Blair over Emu

FT Reporters in London and The Hague

The Dutch prime minister, Wim Kok, last night put pressure on Tony Blair, his UK counterpart, to adopt a more positive approach to European monetary union, saying that sterling should join the new currency as early as possible.

Shortly before the British prime minister gave a lecture in the Netherlands on his European policy, Mr Kok – regarded as a political soulmate of Mr Blair – showed that EU members remain uncomfortable with the UK's equivocal approach to Emu.

Mr Kok said that "countries that meet the criteria should be prepared to participate as soon as possible" and that "this also applies to the United Kingdom". Addressing Mr Blair, Mr Kok continued: "I would therefore urge you not to wait too long."

However Mr Blair's speech was cool towards Emu and he made no reference to the official policy of favouring monetary union in principle. His official spokesman insisted there had been no "watering down" of the government's Emu approach.

The UK prime minister said simply that "we believe a single currency can make sense in a single European market", but warned that "labour mobility and fiscal transfers" would not be "realistically available" to cope with economic shocks within the Emu area.

For monetary union to work, there would therefore be "a vary high premium on genuine and sustainable convergence and on the adaptability of our industry and the employability of our workforce".

Mr Blair also hailed the creation of an alliance of "politicians from all parties" in the UK to promote the cause of the European Union. He told journalists it was "important to co-operate across traditional party lines."

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Privatisation: Shareholders in former state-owned operations warned that the next few years will be far from easy

Increase in rail revenue urged

By Charles Batchelor, Transport Correspondent

Britain's privatised train operating companies must increase passenger revenues by up to 93 per cent by the end of their seven-year franchises if they are to compensate for declining government subsidy, according to a study of the rail industry.

This is on top of cost savings rising to £643m ($1.05bn) a year or 14 per cent off present levels after seven years, the study said. It was compiled by John Nelson, a former managing director of the south-east region of British Rail, the former state network.

The private owners of rail companies have often committed themselves to reducing levels of subsidy steeply over the lives of the franchises, raising fears that some may not be able to expand their businesses sufficiently.

Mr Nelson said some of the train operators appeared to be enjoying the benefits of the buoyant economy without being sufficiently aggressive in expanding their businesses. In theory, all of them "should be capable of meeting the growth targets required".

"At the top of my list of what they need to have in place is an innovative management, particularly in the marketing area. They need to acquire new rolling stock and develop new services. I can see this happening in some companies but not yet on a sufficiently wide canvas," he said.

The move from national marketing campaigns by BR to campaigns by individual train companies has led to a decline in awareness of the railways and of promotional fares for families and young people: "A substantial branding exercise by the train operators may be needed."

The growth rates needed to compensate for declining subsidies and to provide a return to shareholders range from 1 per cent at South West Trains to 93 per cent at Cardiff Railway in Wales.

Virgin Rail has the most challenging revenue target of more than doubling revenues on its 15-year west coast main line franchise between England and Scotland.

Offer, the electricity regulator, yesterday confirmed that the target date for the introduction of domestic competition will be put back from April to September, Robert Corzine writes. Professor Stephen Littlechild, director general of Offer, said a five month delay was needed because "it is clear that the industry will not be ready to implement the necessary changes..." to computer and billing systems. The new target date for full competition for Britain's 26m electricity consumers is June 1999. supply com Commercial electricity users responded to the delay by demanding that competition go ahead in April for multi-site users, such as retailing groups.

Regulator's tough move may curb water payouts

By Leyla Boulton, Environment Correspondent

Water company dividend payments are likely to fall sharply after 2000 because of a tough regulatory squeeze on profits, Ofwat, the water industry regulator, has warned. The companies include 10 former big state-owned utilities.

Ian Byatt, Ofwat director-general, said his review of water charges next year would "switch gear to lower profits and there won't be resources for anything other than a prudent dividend policy".

He said the double-digit increases in the dividends paid by companies to shareholders in recent years had been "unsustainable".

Mr Byatt was agreeing with suggestions by members of the House of Commons public accounts committee that dividends paid to shareholders in the past had been excessive.

But Mr Byatt said he was reluctant to impose more direct controls on the dividends and profits of companies because these would undermine incentives for companies to cut costs. Ofwat is due next year to revise its caps on the prices companies can charge with effect from 2000.

Separately, Mr Byatt said he would stick to his plan to introduce a one-off price cut in 2000 before allowing price increases in subsequent years to pay for new environmental obligations.

He also attacked an alliance emerging between the Environment Agency, the pollution watchdog, and companies against price cuts. They argue that Ofwat should not preclude the need for bills to rise in order to fund further improvements to water quality and sewerage standards. Mr Byatt said the companies had first to share with shareholders some of the efficiency savings they had made.

Eagle Eye · **Louise Kehoe**

Networks for all

Lack of a user-friendly PC nerd should not stand in the way of small businesses sharing the benefits

Every office needs one: somebody who can help with the day-to-day problems of PC use. In large companies there are IT managers who handle the job, but in small businesses the situation is very different.

Typically, there is somebody in the office who becomes by default the office nerd; a self-taught expert with an aptitude for computing. But the technical knowledge of the office nerd often runs out when it comes to computer networking. This is one reason why small businesses tend not to install local area networks. Yet the internet has given many small business and individual PC users a taste of the benefits of networking, including e-mail and file sharing. Intel, which this week launched a range of networking equipment aimed at businesses with 50 or fewer employees, believes the market is ripe for networking products that do not tax the knowledge of PC users (www.intel.com).

The new plug-together system is "dead simple" to install, said Jim Johnson, product manager. "It takes only about 30 minutes." For the sceptical, Intel promises telephone support, even on weekends and evenings.

The cost benefits of creating a local area network are persuasive if the alternative is connecting computers via the internet. Five PC users with internet accounts, for example, would pay at least $100 a month for the service, plus the costs of phone lines which may run to an additional $300 or more. With a Lan, this can be reduced to a single phone line and account for internet access at a cost of about $80 a month. The router, hub and network interface cards needed to set up the network cost about $1,500 to $2,000, depending on the speed of the local network. Cabling to link the PCs is extra, but additional savings can be made by cutting the number of printers and other peripherals.

So, if networking is getting easier and cheaper, how long before we have computer networks in the home as well as the small office? The multi-PC home is becoming more common, but most homeowners are not keen to drill through walls to install new wiring. Alternatives such as wireless Lans or networks that piggyback on home electrical wiring may be the answer. But the cost will have to come down – to perhaps $500 – if the home PC network is to take off. At that price it might be worth saving the trip from the living room to the home office to swap a computer disk.

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"When did you last back up your files?" The question was blunt and to the point. It elicited the same sinking feeling you get when blue lights flash behind your car or the teacher asks for your forgotten homework. It is too late for excuses. It all began with a flash of lightning. Then the heavens opened and the lights went out, only to flicker back on a few seconds later. After making a few ominous beeps, my computer died. The hard disk had crashed and in the process parts of the operating system were wiped out.

> A notebook is not a bad idea. How often have you looked for a bookmark on your home PC only to realise it is on the machine at work?

As it turned out, I was lucky. With the help of a technically savvy friend the computer was revived and no files were lost. But that back-up question still makes me shudder. There is a lot of information on that machine that would be hard to replace.

Backing up files is a chore that many of us ignore, in spite of our growing dependence upon PCs. The advent of removable cartridge drives such as Iomega's Zip Drive and SyQuest's SparQ make it easy to make back-up files in a few minutes. Yet few PCs come with these drives already installed because manufacturers are cutting corners in their efforts to keep PC prices low.

For many users, it may be a false economy. If you are really serious about ensuring your files cannot be destroyed, online storage may be the answer. These services provide data storage on remote computers so that you do not have all your eggs in one basket. Examples include Atrieva (www.atrieva.com), which charges about $15 a month.

Of course, this means putting precious files under someone else's control and trusting they will be safe and secure. If storing back-up files electronically is not an option, keeping paper copies of important documents may be the answer. That is what John Miller of netDirector Partnership advocates. He had designed a loose-leaf notebook for jotting down web site and e-mail addresses; a back-up to the "bookmarks" and electronic address book on your computer (www.miller-and-miller.net).

Although it may seem a backward step, a notebook is not a bad idea. How often have you looked for a bookmark on your home PC only to realise it is on the machine at work? And if you do ever face that back-up question, you will have a much better answer than I did.

***

Another Intel innovation making its debut this week is Quick Web software, which promises to speed up delivery of web pages containing big photos or other graphics. Using compression technology Quick Web squeezes graphics so that they move more quickly over the net. It also caches or stores images on the local server of an internet service provider the first time a user requests the web page. Subsequent requests are delivered from the cached source instead of a distant web server.

The delivery time of graphics-rich web pages can be halved, says Intel. So far, two internet service providers, Netcom and Erols Internet, are offering Quick Web, each for a premium of $5 a month. Intel will get a share of the revenues.

Web publishers are not all thrilled with the trend towards local caching, which makes it hard for them to count the number of times people access their pages. These numbers are used to attract online advertisers, much like the circulation numbers of traditional paper publications.

The technology may force commercial web site operators to find other ways to value their content rather than the raw numbers of internet users who happen upon their pages. Perhaps local caching may even hold the hidden promise of higher quality web site content. That would be a real step forward.

Share your views in the Eagle Eye discussion group on the FT web site (www.FT.com) or contact Lousie Kehoe by e-mail on louise@FT.com

Data transmission · **Richard Poynder**

Last mile is the longest

Faster downloading from the internet is in prospect

Most users of the internet will have experienced frustration at how slowly data is downloaded to their PC. The information superhighway, we are often reminded, is still under construction. Fortunately, several new technologies promise to improve the situation.

Much attention is given to developments in the capacity of the high-speed "backbones" of the internet. Yet for most people the big bottleneck lies in the copper wires of the phone line that connect their computer to the local telephone exchange – colloquially known as "the last mile". Like cars leaving the motorway, our packets of data drop to crawl speeds once they leave the fibre optic cables at the exchange.

Gemini, a new transatlantic fibre optic cable jointly developed by WorldCom and Cable & Wireless, can transmit data across the backbone at 30bn bits per second, or 30 gigabits per second (gbps). But the speed with which data can enter homes is governed by the rate at which the modem can transport it over the "last mile" – in most cases still 28.8 thousand bits per second (kbps). So Gemini can transmit data at up to 1m times the speed of the average modem. "It is a bit like trying to drink from a fire hose," says David Howard-Jones, marketing director for UUNet UK, WorldCom's internet subsidiary.

Copper wires are ideal for transmitting analogue voice signals, but less adequate for moving digital data at high-speed. A remedy would be to extend into the home the high-speed fibre optic cable connecting all the national telephone exchanges.

That is easier said than done. "The civil engineering of pulling in fibre to the home is horrendous," says Professor Peter Cochrane, head of research at BT's Martlesham Laboratories. "It would cost about £15bn to do the whole of the UK."

Much effort has been expended on increasing the speed with which modems can move data through existing phone lines. Until recently the fastest rate was 33.6kbps. But last year new-style modems went on sale which can modulate the transmission signal digitally so that users can receive data at 56kbps (but they can still send at only 33.6kbps).

Then US-based Diamond Multimedia announced it had developed a technology, called Shotgun, that can double transmission speeds by "bonding" two phone lines. When used with the new 56kbps modems Shotgun can transfer data downstream (to the user) at rates as high as 112kbps. But as Shotgun needs two modems, as well as two phone lines, there are doubts that the bonding technology will be widely adopted in Europe when available this year.

Many believe the analogue modem has reached its limits. "You can keep tweaking the protocols," says Mike Reed, director of product marketing at Diamond Multimedia, "but 56K is probably about as fast as you can go on a single phone line".

Internet cognoscenti hold out greater long-term hope for the so-called xDSL technologies. The most prominent of these is ADSL (Asymmetric Digital Subscriber Line), a modem-like technology that can send data at up to 8m bits per second (mbps) across existing phone lines. Using ADSL, BT expects to offer speeds 50 times faster than existing modems.

The drawback is that, unlike analogue modems, ADSL requires a terminal device at both ends of the cable, and local exchanges have to be rewired. And as it was developed for the broadcast requirements of video-on-demand, ADSL can at present transmit data away from the user at only between 16 and 500kbps. To meet the more interactive demands of the internet, several alternative DSL technologies are being developed to permit faster upstream transmission. These include HDSL and VDSL.

Rockwell and Nortel also recently announced a new "lite" version of ADSL that will enable data to be transferred at up to 1mbps, or 17 times faster than a 56kbps modem, using the existing equipment. "We have developed a clever bit of technology that avoids the need to rewire the telephone exchange," says Ian Vance, Nortel Europe's chief engineer. "You can now just plug a new card into the existing system."

An alternative approach to easing the last mile bottleneck is to bypass the telephone network altogether. One of the most promising technologies here is cable and companies have recently been conducting cable modem trials. Last year, for instance, Telewest, the UK cable company, tested devices capable of transferring data at rates as high as 10mbps each way. For the moment, however, disagreement about standards hampers implementation.

Other alternative infrastructures include satellite and fixed wireless. Using the DirectPC service from Hughes Olivetti Telecom, for instance, users can receive data at 400kbps. But the speed advantage is far less than that promised by ADSL and cable. In the UK it also costs £450 for the satellite dish, PC card and software, and £15 for a monthly subscription. A more significant hurdle is that there is no satellite return path, so users still need a modem and an account with an internet service provider to transmit data.

Fixed wireless is more hopeful. Today fledgling UK wireless provider, Ionica, offers narrow-band telephony services alone. But the company has also been awarded a 10 gigahertz licence – enough to transmit data at speeds of up to 2mbps. "We have not announced anything about how we are going to use it yet," says Ian Morris, Ionica's head of external affairs. "Ionica was designed to take on BT, and at the moment we are mainly focused on offering telephone services."

A more surprising solution was offered last October by Nortel and Norweb, which demonstrated a technology capable of transferring data across electricity power lines at speeds of up to 1mbps. The benefit of this method, says Mr Vance, is that unlike cable "you don't have to dig up the roads. And it is simpler to install than ADSL. Norweb already has a school connected and it is working extremely well."

But until these technologies are commercially available most people wanting faster access to the internet will have to pay the higher costs associated with upgrading to a digital ISDN line. "In the short term this is the best bet for anyone who cannot afford a leased line," says Kate Hewett, an analyst at research company, Ovum.

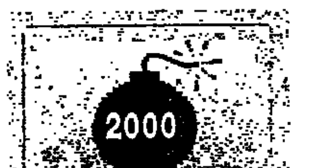
But with a top speed of only 128kbps ISDN is now not much faster than two Shotgun-bonded 56K modems. Ms Hewett sees a bleak future for ISDN, which is an early DSL technology. In a recent Ovum report she predicts a halt in its growth by 2003, as xDSL technologies become more popular.

By then cable, wireless and satellite technologies will also be more serious competitors. Good news, says Ms Hewett, for the consumer. "Where at the moment customers [who want faster access] can only go with ISDN, in the next couple of years they are going to have a choice."

Information Technology

● The FT's review of Information Technology appears on the first Wednesday of each month

Millennium Watch · **Bethan Hutton**



Double trouble date

Managers in Japan, where two date systems are used, are waking up to the problem

Computerisation came later to Japan than to many western countries, and awareness of the millennium bug is also lagging behind. As if that were not enough, the year 2000 will arrive several hours earlier in Tokyo than in London or New York.

Many Japanese managers are only now waking up to the problem. Research last year found that a worrying 12.5 per cent of managers still said they did not understand or were not aware of it. Even so, that was a distinct improvement from 1996, when more than half were unaware.

The fact that Japan uses two dating systems adds to the confusion. The western system is used when dealing with the outside world, and sometimes at home as well. But often in domestic correspondence, accounts and so on, 1998 will be written as Heisei 10 – the 10th year of the reign of the current emperor.

In theory, computers using the Japanese dating system should be immune to the millennium bug or to similar problems – no emperor has yet reigned for 99 years or more. Unluckily, although the software applications may follow the Japanese way, in most cases the underlying operating systems are based on the western system. Only a handful of domestically-oriented companies have systems which use the Japanese dates exclusively.

Computer industry sources say that sectors with large-scale computer networks heavily dependent on date-related information processing, such as banking and the travel industry, already have the Y2K problem well in hand, although preparations may not be completed until 1999. But among smaller companies, with medium-sized computers, it is a different story.

The Ministry of International Trade and Industry – the powerhouse guiding Japanese industry – has been carrying out surveys of a variety of companies. The last, in July 1997, found that 15.9 per cent of companies had already dealt with the problem, but a larger proportion – 18.8 per cent – had not even started. About a quarter were working on it, or said the issue was under investigation.

Small to medium-sized businesses were slowest to respond to the threat, since computer systems were seen as less central to their businesses. Important Japanese computer manufacturers like Fujitsu and NEC report similar findings.

Miti also found that 39 per cent of companies capitalised at less than Y100m did not have any IT staff, relying instead on outside contractors, which meant that no one in management was well informed about computer related problems.

Not surprisingly, 60 per cent or fewer of managers at smaller companies regarded the Y2K bug as a serious problem, compared with nearly 80 per cent at the largest companies. "Smaller companies may cause confusion," Miti warns.

One risk is that problems at smaller companies may work their way up to affect larger companies, particularly manufacturing companies using a just-in-time supply system. The large companies themselves may be well prepared, but smaller suppliers may not. If glitches lead to administrative or production hold-ups at suppliers of key parts in 2000, big names could find production lines held up.

The economic climate is not helping, again particularly at smaller companies, which are suffering a credit crunch. Banks are reluctant to provide loans to smaller companies, so lack of funds for upgrading systems is becoming a problem.

Computer experts say that the slow Japanese response to the Y2K threat means that there is likely to be a surge of demand for solutions from late this year. Solution providers are gearing up for the crunch.

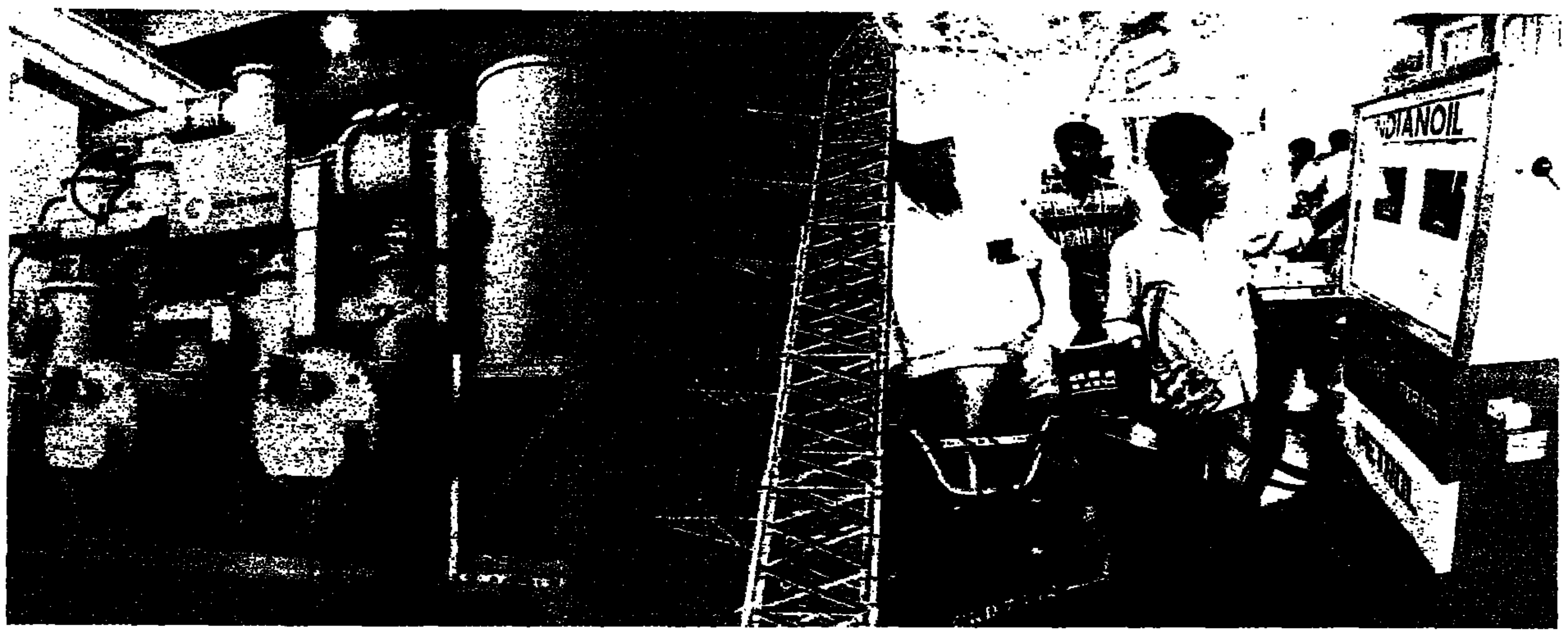
At larger companies, the Japanese system of lifelong employment and relatively little use of outsourcing mean that some Japanese companies are in the fortunate position of still employing the staff who developed and introduced computer systems in the 1970s. But in Japan, as elsewhere, there is still likely to be a shortfall of programmers familiar with older computer languages such as Cobol.

Japanese companies have been looking abroad for help. Fujitsu, NEC and IBM Japan all have pilot projects under way with Indian software engineers, but face a language barrier: Indian programmers are well-versed in Cobol-based programs, but the Japanese-language documentation is another matter. The 100 or so Japanese-speaking computer programmers in India are in high demand.

INDIAN ENERGY

State electricity boards are at the heart of power problems, says **Mark Nicholson**

Uphill task for the reformers



There are few outright optimists in India's energy sector; more common are various grades of pessimist. Seven years after the liberalising Congress government of P.V. Narasimha Rao, the prime minister who ushered in India's economic reforms, opened the state-dominated power sector to private and foreign capital, there have been more frustrations than successes.

Power, and more broadly energy, have been at the top of the government's agenda since Mr Rao, as they have of each of the three administrations that followed.

And no wonder. Blackouts are routine in most Indian states, and even the pampered VIP enclaves of New Delhi often go without power. Last year the average power deficit nationwide was 9.2 per cent and peaking shortages were 18.3 per cent. Moreover, this deficit has been widening. Demand for electricity has grown by around 8 per cent for the past couple of years, while the rates of increases in supply have been lagging, at least until late last summer, at just 2 to 3 per cent.

While governments have opened the doors to private and foreign investment in power generation, the response has been disappointing. After an immediate rush of interest from overseas, foreign investors have found the going tough.

The Rao government's hopes of pump-priming investor interest by offering sovereign "counter-guarantees" to eight "fast track" power projects backfired. The notorious cancellation, in 1995, by the Maharashtra state government of the $2.3bn Dabhol power plant, backed by Enron, the US energy group, set a trend for state government reviews of the pricing and project costs of the new – to India – independent power producers. Enron's project was eventually rescheduled and is due for commissioning later this year, but much damage has been done.

The Maharashtra government's review of Dabhol set a trend, and most other foreign-backed power projects also found themselves mired in lengthy renegotiations with state governments, whose state electricity boards (SEBs) are the purchasers of the proposed private power.

To date, therefore, India can boast just 850MW of commissioned power from projects begun under the new private power policy launched in 1992. "We really have not done anything substantial," says R.K. Patchauri, director of the private Tata Energy Research Institute (Teri).

The problems have proved manifold. At one level, they derive from the complications inherent in India's constitutional division of power policy between the central government and the states. The centre can set policy, but the states – which is most cases are the final buyers of private power – must implement. Frustrated project developers have, as a result, found their projects bounced back and forth for dozens of different approvals and reviews between Delhi and the state in which they aim to build the power project.

Most serious, however, has proved the general inability of India's chronically inefficient, politically controlled and lossmaking state electricity boards to offer commercial guarantees for the purchase of power – the reason the government offered the sovereign guarantees in the first place.

Virtually all India's 19 SEBs are effectively bankrupt – unable easily to pay commercial private power tariffs or, equally critically, to invest in their own power generation projects. The latest Planning Commission review of SEB finances found their commercial losses had risen from Rs15.6bn in 1985-96 to Rs75.2 by 1994-95, with arrears of an equivalent sum.

The chief culprit is the general, and politically motivated, tendency of SEBs to offer cheap or free power to farmers and, to a lesser extent, domestic power users. The result has been a heavy cross-subsidisation of agricultural electricity users at the expense of industry and an unaffordable subsidisation of power in general.

While the average tariff for farm users was 21 paise (100 paise = 1 rupee) per kilowatt hour in 1995, that for industry was 235 paise. The average cost of power was 172 paise per unit. This has led to increasing offtake of subsidised power by farmers (whose share of total power purchases rose to 47 per cent in 1995 from 27 per cent a decade earlier), worsening power deficits and revenue deficits for the SEBs and an increasing trend for frustrated industry (whose share of power sales fell to 35 per cent in 1995 from 50 per cent in 1985) to resort to captive, mostly diesel-powered, power generation, which is costly and polluting.

It has become clear that emerging from this mess will prove an arduous and complex task. First and foremost it will require structural reforms of the SEBs, or at least of a substantial number of them. With significant World Bank and Asian Development Bank backing, this process has begun. The state of Orissa has already begun a radical overhaul of its SEB, Haryana is close behind, and Andhra Pradesh and Karnataka states are also poised to embark on reforms.

In each case, the reformist states are applying a variation on a basic template. This includes depoliticising the SEB, largely by installing an independent state power regulatory authority to set tariffs, unbundling the SEB's current responsibility for generation, transmission and distribution, privatising the latter wherever possible, and corporatising the separated power entities in general.

But, so far, the reformist states remain a tentative minority. On present trends, reform is not fast enough yet to enable analysts to forecast, with any confidence, that the SEBs will be in better financial shape soon enough to sustain the power investment needed to prevent a grave power crunch.

To India's current generating capacity of 84,000MW, the government's authoritative India Infrastructure Report last year estimated that the country needed to add 111,500MW in the next decade to meet likely demand. This, the report calculated, would require investment of around $160bn.

The power ministry believes that India will be able to add 40,000MW of fresh power by 2002 and that this will at least keep the current power deficits from worsening.

Of this total, says Y. Alagh, the caretaker power minister who took over the portfolio last May and who is expected the hold it until India's elections next month, roughly half is expected to come from the private sector and the remainder from India's central and state governments. Of the private component, projects worth 17,700MW have received central government clearance and projects to generate another 3,000MW will, he says, be cleared by March.

Of the state component, 6,700MW is planned for implementation by the National Thermal Power Corporation, a financially sound state organisation which, says Mr Alagh, would have little difficulty in financing its proposed projects.

However, it still remains unclear how many of these cleared private projects can actually arrange financing for their projects. In most cases, the private developers are, in the absence of any further government guarantees, seeking arrangements for payment through escrow accounts from the SEBs. The SEBs undertake to give the private producers first call on their revenues under the proposed schemes. Without such hard and fast commitments, bankers are proving unwilling to tie up the financing of many power projects.

The difficulty is that most ailing SEBs cannot afford more than one or two such escrow arrangements – and few have been completed. According to Crisil, the Bombay-based credit rating agency, it would be realistic to expect that India's SEBs can currently sustain, at best, projects generating only 5,979MW of power – well short of the power ministry's hopes.

Hence the preponderance of power pessimists. "The picture is really pretty dismal," says Teri's Mr Patchauri. "You really don't have enough in the pipeline. All of which put together indicates that, in the short-term, the power situation is going to get much worse."

Mr Alagh remains determinedly sanguine, however. "The energy deficit today is about 8 per cent. It was 12 per cent at the end of last April, so the situation is one of concern now. The word crisis I did use when I took over in May but, if things go well, we should be able to keep the deficit down to 7 to 8 per cent by next summer," he says. "Within two years, the decisions we are taking now will start to have an effect, so I don't see India's energy situation getting out of control."

STATE ELECTRICITY BOARDS • by Amy Louise Kazmin

A little light seen on the horizon

But essential reform will throw some, notably farmers, into the dark

The cost to India of subsidised or free power to its farmers is $3.5bn a year. *It is a cost that the country's* State Electricity Boards (SEBs), which distribute power to customers, can ill afford.

The ailing SEBs are expected to report combined losses *of $2.5bn for last year.* They also have outstanding dues, averaging around 30 per cent of total sales, and owe nearly $2.5bn to central government enterprises in unpaid bills for power, fuel *and other services.*

The poor condition of the boards is the Gordian knot bedevilling India's power sector. Independent power producers are ready and willing to build projects to meet India's growing demand for electricity. But, after decades of mismanagement and populist moves to give free or subsidised power to farmers, SEBs are in no position to pay for the power *that could be generated.*

That makes it extremely tough for the potential independent power producers to bring their new projects to financial closure.

"The fact that the SEBs *are in bad shape is causing* us some difficulty," says Patrice Pelletier, vice-president of SNC Lavalin, a Canadian power company with ambitious plans for India.

Yet in this bleak scenario there are small sparks of light. Agencies such as the World Bank and Asian Development Bank, along with level-headed Indian reformers and potential independent power producers, have been trying for several years now to impress upon politicians that SEBs must be managed like profit-minded companies rather than as grab-bags with free give-aways for all.

Initially, politicians resisted. But now in several states, including Haryana, Rajasthan, Andhra Pradesh and Gujarat, *some are willing to listen.*

The state that has gone furthest down the reform road is Orissa which, with World Bank encouragement, dissolved its state electricity *board in April 1996. The board was* replaced by an independent regulatory commission to fix tariffs for the independent companies that now handle generation, transmission and distribution. The transmission and distribution company is due to be privatised gradually, starting this year.

Meanwhile, other states have also started laying the groundwork for similar *efforts. Haryana state officials* are in the final stages of discussing a $600m, 10-year World Bank loan for restructuring their electricity board into three separate business entities. The state *has also passed a reform bill* that establishes an independent regulatory commission to set prices and oversee fair competition.

Officials in Rajasthan, Gujarat and Madhya Pradesh *have drafted similar legislation*, though these bills have yet to be introduced to their state assemblies.

Gujarat is planning to convert two distribution circles into independent profit *centres on an experimental* basis, while Rajasthan plans to privatise distribution in two zones.

For all reforming states, the key issues are insulating electricity boards from political vagaries and raising tariffs for agricultural customers to make the boards financially viable.

"At the end of the day, the most important issue is that people have to pay for electricity," says Mr Pelletier. "It's not a problem of the SEBs; it's a problem of political will and social will that you have to pay for what you get."

While politicians have used the promise of free power as a vote-getter, power ministry officials believe India's cultivators are now willing to pay more for a better quality, more reliable supply.

Evidence to support their view comes from the desert state of Rajasthan, where the electricity board intro*duced a novel scheme to* help people avoid a 13-year waiting period for a power connection.

Under the so-called "Nursery Scheme", farmers could jump the queue and get an immediate power connection if they were willing to pay Rs50,000 – 10 times the normal connection fee. Once connected, consumers under the scheme pay nearly 1.5 times more for every unit of power than other users.

So far, some 50,000 people have been willing to pay for a quick connection, while thousands more are on a waiting list for a connection through the scheme.

The programme did generate some controversy. Initially, an uproar in the assembly forced the government to call off the programme. But the protest from the farm lobby was so *fast and vociferous that it* was reinstated within two days.

The man behind the plan, Pashupati Nath Bhandari, a former chairman of the Rajasthan State Electricity *Board, says the project has* been "a roaring success" and should change attitudes about power reform.

"This has exploded the myth that you cannot touch the agricultural sector," Mr Bhandari says. "Tariffs are a peripheral issue; ultimately the quality is more important."

Mr Bhandari did not leave things to chance though. While chairman of the state SEB, he and other top officials held public meetings in nearly every district to explain the need for reforms to overhaul the organisation. The meetings, which sometimes lasted as long as six hours, were often acrimonious and marked by heated *debate. But he believes most* state residents are now convinced of the need for a change. "I have created a proper climate [for reforms]," he says.

The need to overhaul the *electricity boards is urgent.* India's current energy and peaking shortfall, now estimated at 10 and 18 per cent respectively, is growing as capacity addition fails to keep up with demand.

In Haryana, for example, the current power shortfall is around 16 per cent, due partly to the fact that the cash-strapped board has not been able to add new generating capacity in nearly a decade. Last winter, Haryana was forced to declare extensive power cuts to cope with the problem. Consultants estimate that over the next two decades, the state will need $12bn in new investment to meet its power requirements.

Meanwhile, in Rajasthan, total installed capacity is 40 per cent short of demand. Yet with $1.1bn of outstanding payments owed to it, and annual interest payments of $179m, the Rajasthan Elec*tricity Board is hardly in a* position to pay for new capacity.

Nationally, India needs an estimated $178bn in investment to meet power needs up to 2005-06. Such invest*ment will not be forthcom*ing unless the SEBs can put their houses in order.

It is not just the untenable subsidies that are causing them trouble: unchecked power theft is another major *problem.*

Nearly 21.4 per cent of the country's available electricity was lost in transmission and distribution in *1993-94*, partly due to technical problems but also due to pilferage, often carried out in collusion with SEB employees.

Meanwhile, frustrated industries are turning away from the public power supply and building captive generation plants to be assured a continual flow of energy. Between 1984-85 and 1995-96, the share of domestic and agricultural customers as a percentage of the SEBs' total sales grew from about 27 per cent to 47 per cent, while the industrial share shrank from 50 per cent to 35 per cent. That has exacerbated the SEBs' problems since industrial customers pay more for power than agricultural consumers.

For several SEBs, the financial crisis is nearly at boiling point. V.B. Tulasidhar, an economist at the Asian Development Bank, says that in Gujarat, for *example, "there is a feeling* that this problem has to be addressed. There is no way out".

Yet power reform still has the potential to arouse heated passions. In Haryana, the state power minister *resigned in protest at the* planned reform last February. Subsequently, eight people died and the mother of a government minister was abducted during violent protests against the state's *decision to stop repairing or* replacing broken transformers for customers with large unpaid bills.

The outcry prompted the government to backpedal on a commitment to repair *transformers as long as cus*tomers paid 50 per cent of their outstanding dues.

The state's chief minister, Bansi Lal, is a staunch advocate of the reform and has held numerous public meetings to explain the need for it. But the task of convincing farmers has been made more difficult by neighbouring Punjab, a state where officials are currently giving free power to farmers.

In Andhra Pradesh, employees of the electricity board have opposed and stalled reform efforts.

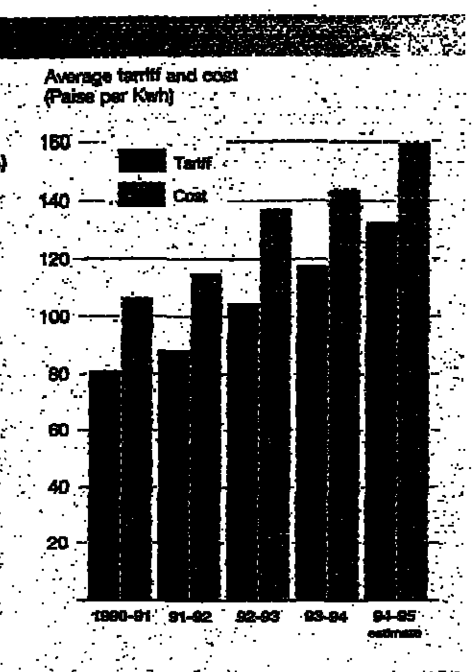
Still, in progressive states, officials are gradually coming to the view that they have no choice, and analysts believe there is a momentum for change. The drive for reform would also get a boost if parliament passed a proposed bill to establish a central energy regulatory authority.

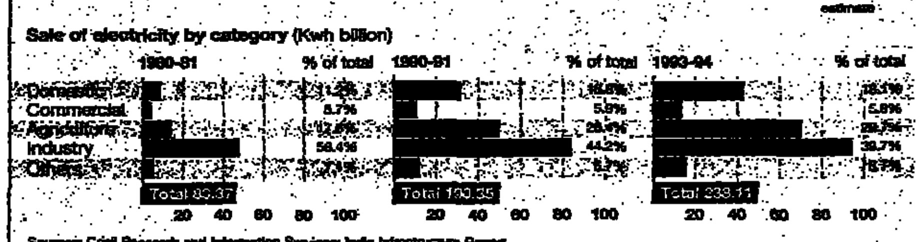
Even if it does not, reforms are likely to power ahead at the state level. "India will reach a critical mass for reform," says Dja*mal Mostefai, a senior* energy specialist with the World Bank. "There is reason for a little bit of cautious – very cautious – optimism."

Electricity's negative returns

SEBs ranked on the basis of commercial losses/profits without subsidy

1995-96	Rate of return (%)	Energy shortage (%)
Orissa	-4.3	-4.7
Himachal Pradesh	-1.3	-0.1
Karnataka	-2.3	-20.7
Maharashtra	-2.8	-2.3
Kerala	-4.8	-14.3
Meghalaya	-6.2	-3.0
Andhra Pradesh	-11.3	-20.2
Uttar Pradesh	-12.0	-11.4
Madhya Pradesh	-13.0	-8.8
Rajasthan	-13.5	-3.2
Delhi (DESU)	-16.5	-7.0
Assam	-17.2	-10.8
Tamil Nadu	-18.6	-10.9
Bihar	-19.1	-30.1
Gujarat	-20.3	-6.9
West Bengal	-21.8	-4.8
Haryana	-21.8	-2.3
Punjab	-29.3	-1.9
Jammu and Kashmir	-45.7	-24.5





Sources: Crisil Research and Information Services; India Infrastructure Report

PETROLEUM • by Amy Louise Kazmin

Six years on, the well is at last uncapped

Deregulation opens the way for the investment needed to meet huge demand

Back in 1992, India appealed to multinational companies and private Indian investors to set up oil refineries to help meet the country's rapidly-growing demand for petroleum products. Six years on, the efforts to attract investment have, for the most part, fallen flat.

While global oil giants such as Shell, Mobil, Elf, Exxon and BP are keen to win a slice of India's growing petroleum market, they have been hesitant to invest in the tightly-controlled sector because, until now, the distribution and sale of refined petroleum products has been the province of a monopoly of *state-owned* companies selling petrol and other products at state-set prices. Likewise only state-owned companies could import crude oil.

It was a structure offering little incentive for private sector involvement. "No one is going to invest in a pure refinery – it's not viable," says R. Venkatraman, a senior analyst at BZW Asia. "The icing on the cake is marketing."

Now the rules of the game are set to change. Just days before the collapse of the United Front coalition, the Indian government's cabinet approved a far-reaching plan to dismantle the controls *throttling the oil sector's* growth. The plan calls for price controls on petroleum products to be phased out over four years and for a rationalisation of import duties – so tariffs are higher on refined products than on crude.

The state monopoly on crude oil imports will end and, crucially, companies which are either operating refineries with an investment of more than Rs20bn or producing 3m tons of crude annually will be allowed to sell transportation fuel in the retail arena.

"What we are seeing is a reversal of 30 years of state control," says Mehdi Varzi, director of research at Kleinwort Benson Securities.

Details have yet to be clarified. The government notice has little to say, for example, *on the key issue of whether* refiners will be permitted to build their own pipelines for distribution or will be required to use pipelines planned by a consortium of state-owned companies. Also, the government is still talking of issuing licences for the importation of crude, which leaves potential investors concerned.

Nevertheless, analysts say the direction of the policy is clear. "They want oil majors to invest in refining and oil production. Oil majors want to market the products. Now the settlement is that they'll be allowed to sell in India but they'll have to make a supporting investment," says Harshad Patwardhan, who monitors the industry for Caspian, a Bombay-based research house.

India's ministry of petroleum estimates that at least 110m tons of additional refining capacity will be required to meet domestic needs by 2010. While foreign companies such as Shell, Oman Oil and Saudi Aramco and Nippon Denro have all been given initial permission to build refineries – some in conjunction with state-owned companies – work has started on only two new refining projects, and both are sponsored by Indian companies. Bombay-based Reliance Industries is building a 15m-ton refinery, and a 10.5m-ton plant is under construction by the Essar group.

However, Indian officials hope the move to deregulate the industry will help revive, *or spur on*, the stalled projects as well as luring new investment.

Oil industry sources and analysts believe it will. "It's a major step towards upgrading this market to global *standards* and attracting significant investments in the downstream refining sector," says Vikram Mehta, chairman and country manager of Shell India Private, which is already conducting oil exploration in Rajasthan. "We would invest in India if we had the opportunity to take the product and market it under our brand name."

Shell, with an eye towards the eventual opening of marketing, has already been working to build brand equity by managing several petrol stations technically run by its joint venture partner, the state-owned Bharat Petroleum.

To a casual observer, the trial stations look like Shell sites and offer attentive service, mini-markets and other features associated with petroleum marketing in the US and Europe.

But it is not just potential private investors who stand to gain from deregulation.

Continued on facing page

PROFILE Indian Oil

Surviving troubled waters

These are turbulent times for Indian Oil, India's biggest oil company and the country's only Fortune 500 company, as it attempts to make the evolutionary leap from a domestic quasi-monopoly to a global oil concern.

The company is still recovering from a severe liquidity crunch, which reached crisis proportions in mid-1997 following the government's failure to pay more than Rs100bn owed to Indian Oil from the central oil pool account.

It is hugely exposed to the opportunities and risks generated by the government's subsequent decision to dismantle the administered price mechanism and move to a market-priced regime with greater competition by 2002.

And it must learn to come to terms with a new class of owners as the government begins to reduce its 91 per cent stake in Indian Oil through the sale of global depositary receipts to foreign investors.

But 1998 promises to be an easier year for Indian Oil than 1997. Its immediate financial crisis appears over. "We have come out of it very well," says S.C. Mathur, finance director, before admitting that "it was the most challenging time for Indian Oil and for me personally".

In order to pay for imports of crude oil the company was forced to raise borrowings sharply. Short-term foreign exchange borrowings rose from about $1.5bn to a peak of $3.5bn, while the total outstanding debt rose from Rs55bn in March 1995 to Rs140bn.

A fall in the international crude oil price has since alleviated the oil pool deficit – allowing the government to pay Indian Oil about Rs15bn. This, in turn, enabled the company to cut foreign borrowings to $2.8bn now.

"*At present* we have receivables of about Rs85bn," says Mr Mathur. The bulk of this balance will be converted into government petrobonds with a five-year maturity paying a coupon of 10.5 per cent – which Indian Oil expects to receive in March or April.

Many analysts describe the issue of petrobonds as a "second-best solution". Its principal effect is cosmetic – reclassifying the debt as an "asset" rather than a "receivable" on Indian Oil's books. The petrobonds are not tradeable – making it impossible for Indian Oil to realise the sum owed – and the coupon is probably less than the cost of borrowing. Further, there is an element of political risk over the ultimate repayment.

But Mr Mathur says the petrobonds are helpful. "Receivables will become an investment yielding a return," he argues. "Also, we will be able to borrow against these securities." The government has agreed to make up any difference between the coupon and the cost of borrowing through the oil pool account. "If the cost of borrowing is 12 per cent I will be refunded 1.5 per cent," he says.

Indian Oil plans to increase its refining capacity from 25m tons today to 40m tons by 2000, beginning with an additional 6m tons capacity at a new refinery at Panipat. But the bulk of the increase will come from expansion and upgrading at Indian Oil's old existing plants. This forms the centrepiece of investment plans totalling Rs300bn over five years – Rs290bn of which will be funded by internal cash flow.

M.A. Pathan, chairman, says the company's plans were based on "conservative" estimates of demand, suggesting there is a gap of 20m tons between India's current refining capacity (61m tons) and demand for refined products (81m tons). Indian Oil worked on the basis of government forecasts that demand would rise to 113m tons by 2002, excluding demand from new power projects. "The additional demand could be 10m tons to 15m tons," he says.

There is also a risk that some of the newly-licensed private sector refining projects will not complete according to schedule. The final details of the government's plan to dismantle the administered price mechanism are yet to be finalised, although Indian Oil expects earnings to increase as a result of its low cost of capital on its established refinery, distribution and sales infrastructure. The company has already decided to assess all new projects "with reference to their capacity to earn in a free market".

The company is upgrading antiquated technology at some of its older plants, reducing sulphur emmisions and sprucing up its retail outlets to prepare for greater competition.

But Mr Pathan is confident. "We are in a commanding position at the moment, and there is no reason why we should not remain in the same position despite the liberalisation scenario."

Indian Oil has huge advantages in infrastructure – including a 5,500km network of pipelines, 6,600 petrol stations and 4,600 captive pumps for truck and bus fleets.

At the same time, however, whatever piecemeal inroads are made into the Indian petroleum market are likely to be, at least in part, at Indian Oil's expense.

Indian Oil plans to raise fresh equity capital to help fund its ambitions in tandem with the government's moves to reduce its equity stake towards a probable long-term target of 51 per cent.

It has already received government permission to expand its share capital by 10 per cent and the government plans to sell about 10 per cent of its existing stake.

Mr Mathur says the sale is likely to take place in two stages, each comprising the sale of a 5 per cent government stake and a 5 per cent new issue, but "not before March".

Krishna Guha

PROFILE Power Grid Corporation

Seeking to provide national distribution

For most of its 50 independent years India has built most of its power stations tied to specific sources of fuel and linked to specific, and usually local, outlets for the use of their electricity. It therefore has no national electricity grid. Worse, only two of India's five regional grids are fully and effectively linked.

"It's not an optimal state of affairs," says S. Majumder, general manager of Power Grid Corporation, the state body created in 1989 to rectify this glaring deficiency.

Indeed not, since without the ability to shift power across India's vast plains, the country is incapable of levelling peak power deficits as they vary from region to region.

Neither can India yet fully evacuate power from proposed mega power projects producing more electricity than a single state or region can currently absorb.

Without a functioning grid, India cannot even contemplate creating a national market in electricity, or even a system whereby tariffs are set according to availability of power.

For these reasons, among others, the government created Power Grid even before the country embarked on the wider liberalisation of power generation. Again for these reasons, multilateral and bilateral lenders have come to view Power Grid as among the most vital components in India's attempts to reform its ailing power system.

So far, the fully state-owned entity has received more than $1.53bn from international donors and agencies, with an equivalent sum promised for future ventures. The World Bank alone has committed "in principle" to loans of $1.5bn over the next seven years.

The goal is to enable Power Grid to meet the ambition of forging from India's ad hoc and poorly synchronised local grids the rudiments of a national grid by 2002, one capable of shipping 1,000 to 1,500MW of power between the five existing regional grids.

The corporation has already invested $1.2bn in the enterprise and estimates it will cost a further $1.5bn by 2002 to complete its part of the programme.

It is a task of mighty complexity as well as cost, frustrated by wide regional variations in power voltages, frequency, supply and demand.

"The parameters differ between every region," says Mr Majumder. "So, for instance, at the moment we cannot effectively link power supplies in the north to the south of the country."

In some cases, he says, Power Grid can build up and improve existing power links, but in most others the task requires building, from scratch, a parallel transmission system, often overcoming problems of differing frequencies and voltages by installing direct current high voltage links rather than alternating current linkages.

At the same time, Power Grid is investing around $650m in creating five load dispatch centres in each of the five current regional grids to manage the national system.

At present, only India's eastern and north-eastern regions are linked, by a 500MW high-voltage and direct current connection.

Power Grid is now working to establish three other trans-regional power bridges, a 500MW DC link from Orissa state in the eastern region to Andhra Pradesh in the southern, a 400KV AC line from Assam in the north-east to Malda in the east, and a 500MW DC link between Bihar in the east and Rihand, west across the northern plains into the northern region grid.

Future plans include a 2000MW DC link between the eastern and southern regions and a 3000MW DC link tying the east to the north.

Beyond its central task of creating the national grid, however, the corporation has a wider remit – one reflecting its emerging position as the central overseer of a national power system and one simply reflecting the ambitions of what has become one of India's better-regarded public entities.

Given its national outlook, it is natural that Power Grid been given the responsibility of attracting and vetting all bids for the mega power projects envisaged as producing more power than a local grid could evacuate – and for helping create the required transmission system.

The corporation has also begun diversifying into offering consultancy services to India's beleaguered and largely lossmaking state electricity boards, supplementing transmission tariff revenues from the SEBs which comprised the bulk of the corporation's turnover of around $350m last year – on which it returned an operating profit of $78m.

So far Power Grid has not needed any direct government support. The company is required to meet 20 per cent of its investment from internal resources and accruals but relies otherwise on multilateral and bilateral loans and commercial borrowings.

Its financial planning envisages meeting the cost of installing the national grid 44 per cent from domestic and foreign borrowings, 23 per cent from the World Bank, 21 per cent from accruals, 7 per cent from the Asian Development Bank and 5 per cent from Japan's Overseas Economic Co-operation Fund.

Sustaining its proposed share of total investments will require a significant rise in current earnings – particularly since likely growth in revenues from the SEBs is necessarily limited.

Which is why Power Grid looks likely to extend its reach further into telecommunications – proposing to undertake the creation of a national fibre optic telecoms "backbone". The corporation has already opened talks with other government ministries over the project, designed substantially to augment Power Grid's earning power.

Mark Nicholson

PROFILE State of Orissa

Reform powers progress

In the last five years, the eastern India state of Orissa has received serious investment proposals of more than Rs1.31bn from domestic and foreign groups to build new industries. Such enthusiasm, according to a spokesman for the state government, was triggered by the "very brave" reform of the power sector.

Orissa, which previously had a poor record for generation station plant load factor and loss of power during transmission and distribution, quickly became the pacesetter in power sector reform as it was the first state to take advantage of a World Bank-financed restructuring scheme.

The bank's officials acknowledge that the Orissa government's reform programme goes well beyond their prescription of a "significant private role in power distribution, corporatisation of utilities, rationalisation of the tariff structure and setting up of an independent regulatory commission".

The state is one of the richest in the country in terms of mineral resources, but investors have avoided Orissa because of its chronic power shortage. But now, when Mr Janaki Ballabh Patnaik, chief minister, says that Orissa is in the process of becoming the "power-house of India", he sounds convincing.

According to a survey by the Central Electricity Authority, Orissa will have a surplus of 264MW by 2002, the last year of the country's ninth five-year plan.

The principal objective of the comprehensive power reform programme is to reduce the role of the government in the sector to a minimum and to create the conditions for private investment in power generation and distribution.

The state government is hopeful that many other Indian and foreign groups will follow the example of AES Transpower Corporation of the US, which is constructing a 500MW coalfired power complex at Ib Valley, and build thermal and hydro-power generating stations. If this hope is fulfilled then, instead of the projected shortfall in power of 874MW by 2007, the state will continue to have surplus power.

Orissa is also the first state to have split the wholly government-owned State Electricity Board into separate generation and distribution companies and set into motion their privatisation.

The Orissa Electricity Reform Act was put in place in November 1995 and the government transferred all the hydropower stations, with a total capacity of 1,237.5MW, to Orissa HPC and the transmission and distribution of electricity to the Grid Corporation of Orissa (Gridco) with effect from April 1 1996.

The Orissa Power Generation Corporation (OPGC), which owns 420MW thermal power capacity, has always been a separate, wholly-owned government company outside the SEB fold.

The government estimates that the implementation of the power sector restructuring programme (across India) will cost about $1bn. The World Bank is making a line of credit of $350m available, with the UK's department for international development adding $110m and the Asian Development Bank a further $57m.

Bijoy Jena, chairman of Gridco, believes the "reforms will lead to the establishment of a sustainable market structure which promotes the growth of the power sector and ensures a reasonable commercial return to the market participants. It will also protect the interest of consumers".

As a prelude to the privatisation of its power distribution business, Gridco has formed four subsidiary companies and 51 per cent of their equity capital will be transferred to private companies by March 1999.

"We set the privatisation ball rolling on November 28 1997," says Mr Jena. "The response to the privatisation is highly encouraging. A foreign company can participate in the competitive bidding through a consortium which includes an Indian business organisation."

No single group or consortium will be given majority ownership of more than two power distribution companies. "We want healthy competition in the power distribution sector," Mr Jena adds.

As the distribution business is spun off into four separate companies, Gridco will be concerned with the bulk buying and selling of power. The state does not intend to privatise the transmission business in the near future. However, both OHPC and OPGC will progress with disinvestment in phases.

Merchant bankers expect there to be many domestic and foreign bidders for the shares of OPGC which owns two new thermal stations and which is building another two coalfired units at Ib Valley.

Merchant bankers say bidders for majority ownership of distribution companies will seek assurances from the government that they will be allowed a free hand in eliminating loss of power due to theft, non-metering or defective metering of use of power and inefficient revenue collection. The government is strongly committed to reform and will not hesitate to let the distribution agencies plug the theft of power.

According to Gridco officials, what makes the share offer attractive is the package of measures Gridco has initiated to make both transmission and distribution businesses profitable. Supported by the international lending agencies, Gridco is modernising the transmission and distribution systems and replacing the old meters. The work is to be completed by 2002.

Industry officials argue that the establishment of the Orissa Electricity Regulatory Commission – the country's first – as a "transparent and independent regulator" to fix the power tariff and gradually phase out the subsidisation of the household and agricultural sectors by industrial and commercial consumers confirms that the government means business.

Orissa will be exploiting about 40 per cent of its hydro power potential of 15bn units by 2002. With nearly 47bn tonnes of non-coking coal at Ib Valley and Talcher, the state could be a perennial source of power for the rest of the country. The challenge is in attracting investment.

Kunal Bose

Petroleum's well is uncapped

Continued from facing page

For the public sector companies that dominate India's oil industry, an end to price controls is also good news.

Until now, the profits of companies such as Indian Oil Corporation, Hindustan Petroleum and Bharat Petroleum were constrained by a Byzantine system of controls requiring them to import crude at world prices and sell refined products at state-dictated prices. The government guaranteed companies a 12 per cent fixed return on investment; any surplus earned was deposited into 'oil pool accounts'.

If official prices were below world market prices, the government compensated companies through the same fund. The prices themselves were set by the "administrative price mechanism", a 22-year-old net of complex cross-subsidies. Under the system, petrol for cars and aviation turbine fuel were overpriced to subsidise kerosene, the "poor man's fuel", used by an estimated 300m Indians for cooking and lighting.

Although the system functioned for a while it has become unsustainable in recent years due to rising global oil prices, a hefty increase in imports, falling domestic output and rising subsidies. Yet Indian governments repeatedly postponed much-needed price increases. As the end of last year approached, the deficit in the oil pool account had swollen to nearly $5bn, pushed up in part by a $1.8bn bill for subsidising kerosene during 1996-97.

Analysts warned that, if steps were not taken quickly, Indian Oil Company, the country's sole crude oil importer, would exhaust its $3.5bn ceiling on foreign borrowings by November.

Forced to act, the government in September increased the price of diesel by some 22 to 26 per cent, bringing the price to import parity. It also said that with immediate effect diesel, naphtha and fuel oils would be linked to world prices. Officials subsequently announced that consumer prices for gas would reach global parity within two years. Finally, it announced that prices receivable by oil producers would reach import parity in five years and that, as of April 1, refineries would begin to receive a tariff-adjusted import parity price for a range of products including motor spirit, kerosene, diesel, aviation turbine fuel and LPG.

With the price reforms, India's public sector oil companies are likely to see a significant rise in their profitability.

This will provide them with much needed resources to pursue expansion plans designed to meet future demands. "It's definitely welcome news," says Caspian's Mr Patwardhan.

Plenty remains to be done, however. Last year, the government announced a new exploration licensing policy, but bidding on exploration blocks has been stalled until the government formulates a new petroleum tax code. India also has to establish proper regulatory mechanisms to ensure fair competition between state-owned and private companies – an issue of critical concern for potential foreign investors.

"These watchdog bodies should have strong teeth to prevent the abuse of monopoly positions," says Mr Varzi. Private companies say that getting the option to build their own pipelines, rather than being forced to rely on lines run by competitors, is also a key factor.

Analysts say the steps taken so far bode well. A new regime will take control after next month's elections, and most believe that the plan to deregulate the oil sector will be implemented.

BIOGAS • by Amy Louise Kazmin

Milking a natural resource

India's 230m cows are an unlikely power supply for its 950m people

Meeting the energy needs for 950m people is one of India's biggest challenges. But the country has one unexpected resource which is lighting up many lives: cattle dung.

With an estimated 230m head of cattle in India, dung is amply available. Several million Indians are already using dung-derived gas – known as biogas – for cooking and lighting.

The story of biogas begins in the 1950s when Indian scientists developed a design for a small structure that uses anaerobic digestion to turn cow dung into clean-burning gas, while leaving plenty of material left over for fertiliser.

Initially, the plants were introduced on a limited scale. But after the oil crisis of the 1970s Indian officials began actively promoting the use of biogas plants, offering subsidies and training courses to encourage their spread. So far plants have been installed in 2.7m households, while 10,000 stonemasons around India have been taught how to build them.

A family needs between two and five cattle – depending on the type of cattle – to have sufficient dung to feed the smallest, household-size plant.

For Sunita Sharma, a farmer's wife and mother of five in the Indian village of Moradpur-Nizam, the biogas plant her husband installed several years ago has been a boon. Previously, Mrs Sharma spent three or four hours a day collecting wood to use for cooking. When she prepared meals, acrid smoke from the wood fire stung her eyes. Now, all the family's meals are cooked on a biogas range. "And we don't get smoke in our face," she says.

Advocates of bio-gas say the unusual fuel can reduce the incidence of lung and eye ailments among rural women, who often suffer from prolonged exposure to smoke from wood fires.

Biogas is used not only for cooking; in sufficient quantities, it can also be used to generate electricity through specially modified generators. Mrs Sharma's neighbour, Yeshpal Singh, is a relatively wealthy farmer with about 25 cattle. He has installed a large, 35m³ capacity biogas plant in his yard. His family uses the gas for cooking and to run a generator which powers their television, refrigerator and farm equipment when the government power supply is cut off. That, they say, is most of the time.

Mr Singh says word of biogas is spreading. "People are inspired to get these plants," he says.

Biogas is not limited to household use. Mohammed Haroon Choudry and his brothers run three roadside restaurants in the village of Dasna on the road between New Delhi and Lucknow. For most of their cooking the brothers depend on cylinders of liquid natural gas, which are often bought at high prices on the black market.

Recently, though, the Choudry brothers, who also have farmlands and a dozen cattle, installed a small biogas plant behind the restaurants as an experiment. They have been using it for emergencies when the regular gas runs out and are so impressed with the results that, next year, they plan to spend Rs80,000 on a large biogas plant to provide enough gas for them to cook most of the food at their three restaurants. Not only will the supply be more reliable, it will also save them money.

Energy specialists say the spreading use of biogas points a way towards overcoming the cost and obstacles of electrifying 600,000 rural Indian villages.

Dr R.K. Patchauri, director of the Tata Energy Research Institute, says that with new technology making small turbines nearly as efficient as larger ones, bio-gas, including gas from bio-degradable agricultural waste, could conceivably generate electricity for individual villages – something that may be far more efficient than trying to bring villages onto a grid.

"In the Indian situation, it is not sensible to generate power and feed it into a national grid. It is preferable to have local and specific power – like a windmill to generate an irrigation pump."

Despite the enthusiasm of its users, the spread of biogas in India remains far below its potential. According to the ministry of non-conventional energy sources, some 12m rural households have enough cattle to meet their energy needs though bio-gas. Yet the government budget for promoting the fuel is just $15m per year – enough to subsidise the construction of only 200,000 new plants.

Without at least some support from the government, few farmers are willing, or able, to afford the $200 or so needed to install the smallest plant.

The success of the plants is also erratic. While in India's southern and western states around 90 per cent of the installed plants are functioning well, in states such as Bihar and Uttar Pradesh many are either lying idle or are out of order.

Still, it is clear that Mahatma Gandhi's view that India's cattle are a source of wealth is true in unexpected ways. With a little political will and a few more resources devoted to it, cattle dung can help power Indian villages into the future.

Cattle play an inportant role in the Indian community...and for some it provides a valuable source of energy

NATURAL GAS • by Andrew Symon

The answer to some inflated expectations

India's need for LNG is mirrored by the regional suppliers' need for new markets

India is set to become the first new market east of Suez for liquefied natural gas (LNG) by the start of the new century or just after.

While there has been a lot of talk that Thailand, China and maybe even the Philippines could join the list of Asian LNG importers – consisting of Japan, South Korea and Taiwan – only in India is prediction becoming reality.

India's position arises because domestic production continues to fall short of potential demand; the government wants to see more gas consumed to help overcome excessive reliance on polluting coal; and on-going industry deregulation and gas price reform is resulting in new opportunities for foreign and domestic companies, upstream and downstream, alongside the state-owned Oil and Natural Gas Corporation (Ongc) and Gas Authority of India (Gail).

LNG's share of modern energy consumption (that is, outside of traditional wood, dried dung etc) is small, making up only about 11 per cent of the total, as against coal's 54 per cent. But the government and the companies in the sector believe there could be no limit to demand provided there is gas available.

British Gas, active in west India, projects a threefold increase in the country's total gas consumption by 2006 when it would account for 20 per cent of energy consumption.

Such projections assume imports. The Indian government itself does not expect anywhere near enough additional production from India's own gasfields – the main ones are Bombay High and Gujarat High, offshore in the north-west, with small fields also in the north-east and in the south-east – although it is encouraging exploration as well as promoting investigation as to how coalbed methane from India's extensive coal reserves might be harnessed.

For India's western and north-western regions, LNG can be readily supplied from the Middle East and, maybe, one day through pipelines from Iran and Turkmenistan; for the eastern and southern regions, there is supply from Indonesia, Malaysia, Australia's north west; pipelines from Bangladesh and Burma are also mooted for the longer term.

Given the economic problems in Asia and the slowing of LNG demand growth in South Korea and Japan, LNG producers in the Middle East, Australia, Indonesia and Malaysia will be keenly turning to the sub-continent for markets they would earlier have hoped to find in eastern Asia.

There is a wide field of foreign and domestic companies planning LNG import developments, and the government is keeping a light hand on the tiller of this competition. For example, no detailed planning and licensing for LNG receival terminals is to be required – a sharp contrast to LNG import development in South Korea a decade ago when a government enterprise, Korea Gas (Kogas), was given an LNG import monopoly.

The situation now in India is consistent with the thrust of its energy sector policy since the early 1990s which encourages increasing private sector participation. This will ultimately be under a new regulatory authority designed to prevent monopolistic pricing.

In this environment, says Rebecca Mark, chief executive of the US company Enron International, success for LNG importers will depend very much on their efforts to develop downstream business and secure a strong customer base. Government permits alone will not be enough.

Enron sees itself as leading the pack in this regard. It is working all along the industry chain, beginning with export supply of LNG from its Qatar project in the Middle East; construction and operation of a receival and regasification terminal south of Bombay on the west coast; construction and operation of a high pressure transmission pipeline from the terminal through Bombay and onto the city of Hazira in the state of Gujarat; and providing base load demand through its large Dabhol Power Plant in the state of Maharashtra, now under construction.

Dabhol, one of India's first independent power plant developments and one of the largest foreign invested projects in India, is firmly on track after being derailed in 1995 when a new state government came to power. A new agreement was concluded with the state government in 1996.

Enron plans to import in the order of 5m tons of LNG annually. Of this, 2.3m tons will fuel the 2,450MW Dabhol plant and the rest will be sold to other bulk consumers. While the first 826MW phase of the plant, to be commissioned in December this year, will use naphtha or distillate, gas should start to flow for the plant by the time the 1,624MW second phase is completed around 2000.

British Gas International, the offshore arm of British Gas, is also well placed. It is also focusing on the western area of India, in and around Gujarat state, one of the country's most industrialised regions. BG, too, wants to import LNG through its own facilities as part of a wider strategy to develop downstream business, in addition to the use of domestically-produced gas.

BG has some of the building blocks in place. In July last year it acquired a controlling stake in the listed Gujarat Gas, India's largest private sector gas distribution company, with 1,000km of pipeline serving industrial, commercial and residential customers in Surat, Ankleshwar and Bharuch. Gujarat adds enormously to BG's other asset – Mahanagar Gas, a 50:50 venture since 1994 with the state-owned Gail, now reticulating gas to customers in Bombay as well as providing compressed natural gas (CNG) to some 5,200 taxis.

To expand further, BG wants to be importing 2.5m tons of LNG a year by 2003, probably from Qatar through a receiving and regasification terminal at Pipavav across the bay from the large cities of Surat and Hazira. The terminal would supply the Gujarat Gas system with additional imports for dedicated power customers. BG is pursuing the LNG terminal project with the Gujarat Pipavav Port, and may also become a user on the demand side through its participation in a proposed 615MW power plant project at Pipavav.

"The wheel that turns it all is being able to distribute to residential users, industrial users and power plants as well as the potential of gas for fertiliser feedstock; you then have a chain," says the head of BG's Asia-Pacific region, Ted Trafford.

PROFILE Gujarat Torrent Energy Corporation

A LNG future beckons

Next October, Gujarat Torrent Energy Corporation (G-Tec) will switch its three gas turbines to combined cycle – reaching full capacity output of 655MW. The first of these turbines is already operational, generating 120MW.

The company – owned by India's Torrent group, Powergen of the UK, Siemens of Germany and the Gujarat Power Corporation – is now discussing plans to triple this capacity to 1,800MW, using new supplies of imported liquefied natural gas (LNG). It has already secured agreement in principle with the state government to raise output to 1,200MW.

"The key challenge on this one is to obtain fuel," says Gerry Grove-White, general manager of Powergen India. "And that is almost certainly going to be liquefied natural gas."

Mr Grove-White says G-Tec could expand its existing plant quickly but it will have to wait "two or three years" for the current wave of liquefied natural gas projects to come on stream. At this stage G-Tec may convert its existing plant to LNG.

"There is not enough gas at the moment," adds Mr Grove-White. He says G-Tec would consider using a temporary fuel, such as naphtha, while projects reach completion. "But we believe that, long-term, naphtha is not a fundamentally sound way of fuelling a power station – it is very expensive."

G-Tec was incorporated in 1992 as a joint venture agreement between Torrent, a diversified industrial group, and Gujarat Power Corporation, a vehicle set up by the state of Gujarat to promote investment in power. A year later, Siemens agreed to take an equity stake as equipment procurement and construction contractor. In 1994, Powergen also bought into the project when it was appointed operation and maintenance contractor. Powergen now holds 28 per cent of G-Tec's Rs7.3bn equity, while Siemens holds 14 per cent.

"We wanted the contractors to have a long-term interest in the project," says a G-Tec spokesman. The company also needed foreign equity participation to allow it to raise funds abroad under Reserve Bank of India guidelines.

By the time the two companies came on board G-Tec had already negotiated a power purchase agreement with Gujarat State Electricity Board, backed by escrow accounts and a state government guarantee, and started work on the site.

"The Indian promoters (shareholders) showed real entrepreneurship," says Sudhir Shah, president (commercial) at G-Tec. "They started spending their own money before the company's borrowings were in place." He says the shareholders "knew that things would happen, but that they would take their own time" and were prepared to "take risks" in the meanwhile.

This aggressive approach helped sustain the project's momentum. G-Tec avoided becoming mired in political controversy in spite of frequent changes in government – in no small part due to the good offices of Torrent and Gujarat Power.

"This project has seen six chief ministers," says Mr Grove-White. Fortunately, he adds, the senior state bureaucrats provided an essential "thread of continuity" and there was a common "political will" among all state parties to see the project completed.

While Siemens provided world-class expertise as a turnkey contractor – installing V94.2 gas turbines and waste heat boilers – Powergen concentrated on design and managing the project risk.

"I think Torrent would accept that we helped them considerably in risk management and risk mitigation," says Mr Grove-White. "Fuel was one area where we were able to add to the contract in one or two areas to improve risk allocation."

This was not without cost – sparking occasional clashes between the partners – and the end result rarely met international standards.

The fuel supply agreement with Gas Authority of India (Gail), for example, is still full of holes. One G-Tec expert summarises it as "we will supply gas if it is there at whatever pressure we like."

Mr Grove-White counters: "If you want gas in India, there is a standard supply contract – we had to get comfortable with that."

He says it was not possible to always insist on "internationally bankable contracts." Instead, the plant was designed to also run on naphtha, delivered by rail, in the event that gas was unavailable – providing an alternative source of fuel. "Without naphtha I do not think we would have invested in this project," he says.

G-Tec's lenders – a consortium of Indian banks and German lenders supported by deferred payment guarantees from Indian financial institutions – were willing to accept the terms on offer, lending a total of Rs17.3bn. The only difficulty was getting all the banks to agree to the same lending terms – a process which took several months.

"This would only work in an Indian-financed context," says Mr Grove-White. "The ironic thing is that a counter-guarantee [from India's central government] was once seen as the holy grail because it gave access to international finance – but that has turned out to be a mixed blessing.

"International finance means fuel contracts, transport contracts, have to be to international bankable standards." While this remains nigh on impossible, he says "the Indian solution is the quickest".

All three private sector partners are now looking at further power projects. Torrent says it would "consider the fuel scenario and the overall objectives of the group." Powergen and Siemens, meanwhile, are working on a 578MW coal-fired plant at Bina, in Madhya Pradesh, in which Powergen holds a 49 per cent stake and India's A V Birla group the remaining 51 per cent equity.

The Bina power station will be India's first private sector coal-fired plant – drawing on the Birla group's expertise in managing coal supplies. "The key is the rail and coal contracts – it is a single fuel power station and we have no alternative way of firing that plant," says Mr Grove-White.

Krishna Guha

ARTS

The expanding appeal of Americana

The new year bidding in the US is giving Sotheby's and Christie's much to crow about, as Antony Thorncroft explains

Fine art auctioneers rouse slowly from mid-winter break. They have had plenty to mull over during this off-season. Christie's is still considering a take-over bid from SBC Warburg, and the offer has certainly galvanised its working practices – last week it announced it was shedding 60 staff.

Sotheby's has been overtaken in size – but not in profitability – by Christie's in the past year. It has been considering how to regain pole position and has decided honesty is the best policy. After last year's unwelcome publicity about conniving in smuggled works of art, in future it will not accept any goods for sale, particularly antiquities, that have a doubtful provenance.

Behind the background politics, there is the everyday action in the saleroom. As usual the first big auctions of the year took place in New York last week, where the finest collection of Americana offered for many years came under the hammer. The prices paid, and the records set, suggest that the American love affair with their homeland continues at a most passionate level.

Americana – works of art and craft produced in the US (the earlier the better) – is exclusively a US collecting obsession. It leads to some weird transactions, and reflects the wealth of the nation. Where else would a copper and zinc weathervane, produced for some Massachusetts farm around 1860, sell for $770,000? Or a quilt, embroidered in New York at roughly the same time, make $264,000?

These prices were paid around 1990, at the time of the first great art market boom, and only exceptional objects would raise such values today. Indeed the only weak sector of a strong market is folk art, in particular folk portraits. Today's buyers are more serious, seeking more traditional antiques, like furniture and silver. But their enthusiasm is just as strong, as last week's exceptional prices underlined. Equally strong is the American reverence for their great heroes – last month a signed letter by Abraham Lincoln sold for $442,500.

Both Christie's and Sotheby's had much to crow about from their first auctions of the new year. On Friday alone Christie's brought in $13.5m (£8.2m), nearly double its expectations. A chest of drawers, plus matching dressing table and side chair, made in Philadelphia around 1770 by Thomas Affleck for the merchant Levi Hollingsworth, sold for $2.9m, a record for a Philadelphia suite of furniture.

In the UK only an exceptional group of furniture by Chippendale, destined for an aristocratic mansion would command such a price. But the suite is famous and comes from a museum, the Chipstone Foundation in Milwaukee: unlike British museums, US museums are quite happy to raise money to buy new acquisitions by cashing in the old.

John Hays, who heads Christie's American furniture department, had estimated the suite at $1.5m-$2m, but a flood of new bidders, many of them quite young, took him by surprise. It was a new collector who acquired the suite. "We are delighted by the results," Mr Hays says. And such high prices will draw out other good items for the June auction.

Christie's also managed a record for American silver when a tazza made by Henry Pratt in Philadelphia around 1730 sold for $453,500, against a $50,000 forecast.

At Sotheby's the highlight last week was the dispersal of almost 600 pieces collected by the late Stanley Paul Sax, who made his money producing polishing compounds for metal products, and for 30 years spent much of it buying Americana. The quality and provenance of his purchases led to some frenzied bidding in a packed saleroom.

The auction brought in $10.56m, with virtually every lot finding a buyer. The top price was the $1.2m paid for a Chippendale chest of drawers and dressing table, attributed to Bernard & Jugiez, who, working in Philadelphia in the 1760s, made furniture to Chippendale's designs.

Four very simple early chairs, attributed to John Welch, who traded in Boston around 1735, made the astonishing price of $967,000. A tall case clock made in Philadelphia in 1765 by Jacob Godshalk set a record for an American clock, selling for $442,500.

Sax bought with the advice of the New York American dealer Israel Sack Inc. Sack was also a buyer on Sunday when, in a mixed owner sale, it paid $531,000 for a games table made in Boston around 1795, which was labelled John Seymour. It is one of only six known tables carrying the Seymour name.

It had been bought in a boot sale 30 years ago by a retired teacher for $25. Last September she took it to Chubbs Antiques Roadshow in Syracuse New Jersey where it featured on the popular American TV programme *Antiques Roadshow*. It was recognised, valued and quickly sold. The pioneering BBC *Antiques Roadshow* has never produced such a lucrative find.

Another *Roadshow* discovery – a portrait of an unknown man by Sheldon Peck, which turned up in Nashville – sold for $79,500 to the dealer Wayne Pritt. The unearthing of such valuables suggests that there is plenty of Americana out there waiting to be uncovered. More and more rich Americans feel it is their patriotic duty to pay amazing prices for common objects, minted in early America.

Among the new specialist auction records that Sotheby's claimed last week involved a neo-classical white marble fireplace surround, made around 1798, which sold for $222,500, against a $10,000 estimate. Also, $173,000 was paid for a walnut bird cage candle stand, made in Philadelphia around 1770, which was expected to go for less than $30,000.

The auction house was even bold enough to post a record for a New England armchair, when a Connecticut example of 1785, in cherrywood, quadrupled its forecast at $266,500.

It is not just patriotism that delivered these prices: the strength of the US economy is producing enough surplus wealth to drive up antique prices. This bodes well for New York's increasingly dominant position in the international art market. This should be confirmed next week when Sotheby's and Christie's sell top Old Master paintings and drawings.

Smouldering: Dmitry Hvorostovsky as the Count with Nuccia Focile's Susanna in the Royal Opera's new production Alastair Muir

Opera/**Richard Fairman**

What a marriage in 'Figaro'

Is somebody enjoying a subtle in-joke? The visual motif of the Royal Opera's new production of *Le nozze di Figaro* is an architect's plan of the Almaviva family villa, which from one angle looks suspiciously like a certain opera-house project down the road.

Presumably the company found that its existing production of Mozart's opera did not fit the stage at the Shaftesbury Theatre and so a new one had to be rustled up quickly (the off-stage chorus of tut-tutting belongs to Gerald Kaufmann and his House of Commons Select Committee). Patrick Young, a Royal Opera staff producer, was brought in to do the job. Designs are by Roger Butlin and lighting (evocative on limited resources) by Paul Pyant.

How much they were given to work on – both regards to money and time – looks doubtful. The budget has bought a not-unstylish single set, which is after all unlikely to be used again beyond these performances – if, indeed, it lasts that long. One push on the wobbly back wall and the entire villa could collapse into the garden. Everything is black and white, enlivened occasionally by those off-white shades that interior designers like to call "a hint of peach" or "avocado white".

There is a certain posiness about the whole evening. Young is fond of treating the cast like a flower arrangement so that they hit a neat tableau at the end of each scene – and it whiles away the time to see how far in advance one can spot the next one coming.

Whatever his passing perceptions, there is not a great deal of through-thought as to character or situation. In between their lines the singers tend to go blank, as though waiting for the producer to call out their next move from the wings – vainly in the case of poor Susanna, who waited an age for one cue (breaking glass outside the window) which never came.

There was rather a lot of that. In a Whitehall-style farce (of which *Figaro* is a very up-market variety) it is essential that people hiding behind doors, chairs or trees are not seen. Here they would pop out and – blow me down – another character would spot them every time. But perhaps the production will come together with more practice, more working together, and a sharper eye for comedy. It certainly has a good cast.

The star is Dmitry Hvorostovsky, who plays the Count as an over-sexed young pup who has inherited the family estate at an early age and is now absolutely full of himself. His smouldering manner gives off a sexual heat that burns up every female on the stage. Women in the audience are advised against sitting in the front row in case they get their ears singed. Once into the drama, he reveals a latent viciousness to the character that is quite frightening. And he sings the music magnificently. Hvorostovsky is – in a word – the best Count I have seen.

At the heart of the great Act 2 finale there is a moment when he convinces you the Count really could kill his wife (what a marriage this could turn out to be). Gillian Webster's Countess responds by remaining cool, concentrating on singing her part as beautifully as she can. The voice does not sound quite even, or perhaps finished, but it has a freedom that allows it to sail out impressively. Dagmar Peckovà's Cherubino also does well in her two arias, singing with feeling and intensity.

In Nuccia Focile the production has a Susanna with everything going for her, pretty Italian features, bags of ebullience, sparkling eyes and crisp words, though she does not take charge of the opera as strongly as she might. Neal Davies's decisive and straightforward Figaro marks another step forwards in his career, but he needs to put a stop to the ugly habit of singing out of the side of his mouth. If his upper lip curls round any further, it will be in danger of swallowing his left ear.

There is a decent trio of supporting singers – Gwynne Howell a nicely ineffectual Bartolo, Yvonne Howard a younger-than-usual Marcellina, Robin Leggate not waspish enough as Basilio – and the young American conductor Steven Sloane kept everybody exactly in place from the pit. If only the trim playing and well-judged speeds could smile a little more, too. Everybody in this *Figaro* needs to relax and enjoy themselves. Perhaps the second cast, taking alternate performances from Thursday, will show them how.

Concert

Carter clarinet concerto a tour de force

No, Elliott Carter is not yet 90, but a December birthday is the best way to guarantee a year-long celebration. The London Sinfonietta raised the curtain at the Queen Elizabeth Hall on Monday with the UK premiere of his Clarinet Concerto, and Carter was there to hear it and give a talk beforehand. He moves more slowly these days, but his wit, gentlemanly modesty and reluctance to explain himself have not withered with age.

We didn't need the question-and-answer session with fellow composer George Benjamin to learn that. It's all there in the music. First performed by Alain Damiens and the Ensemble InterContemporain last January in Paris (when it was welcomed on this page by David Murray), the concerto dazzles on first hearing and promises to be a source of endless fascination. The sooner it gets out of the contemporary music ghetto, the better – and that's not something I would say of every Carter work.

The concerto will be lucky to find a soloist as charismatic as Michael Collins, whose performance shared the breathtakingly virtuosic qualities – stamina, conviction, passionate eloquence – that distinguished Heinz Holliger's playing of the no less demanding Oboe Concerto a decade ago. This latest work is marginally shorter, but the landscape is just as diverse and the signposts equally clear.

What impresses is its Gallic fluency, its classical shapeliness and sense of physical space – all of which have the listener feeding out of the soloist's hand. The clarinet turns out to be something of a Pied Piper, leading off each instrumental group in six sections, linked by short tutti passages. There's a bluesy feel to the dialogue with brass, a racy whirl with fellow woodwinds and a reverie of the utmost tenderness with five string instruments. The musical argument then dissolves into Webern-like fragments, before a quizzical ending.

Whether or not the concerto adds to his reputation as the world's "greatest living composer", an unhelpful accolade bandied about by Carter cognoscenti, it finds him less intellectually intimidating, less musically labyrinthine than before – and much more lyrically charged. That impression may have had something to do with Collins's relaxed confidence, which underlined the visionary imagination of the piece over and above its tightrope technical demands.

After this *tour de force*, the Double Concerto (1961), a Sinfonietta party-piece, sounded rambling in discourse, denser and more obviously constructed. Both works dwarfed the preceding 70th and 80th tributes to Carter from Lutoslawski, Babbitt and Oliver Knussen, who conducted everything with indefatigable zeal, and whose *Coursing* came closest to realising the Carter-esque conflict between order and chaos.

Andrew Clark

The concert is broadcast on BBC Radio 3 tonight.

INTERNATIONAL ARTS GUIDE

BERLIN

CONCERTS
Philharmonie
Tel: 49-30-2548 8354
Berlin Philharmonic Orchestra: conducted by Mariss Jansons in works by Chausson and Strauss; Jan 23, 24, 25

DANCE
Staatsoper unter den Linden
Tel: 49-30-2035 4555
www.staatsoper-berlin.org
Swan Lake: new staging by Patrice Bart, with designs by Luisa Spinatelli; Jan 23

CHICAGO

CONCERTS
Orchestra Hall
Tel: 1-312-294-3000
www.chicagosymphony.org
Chicago Symphony Orchestra: world première of Sir Harrison Birtwistle's Exody, conducted by William Edeins. The programme is completed by Beethoven's *Violin Concerto in D Major*, with soloist Itzhak Perlman; Jan 24

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
London Symphony Orchestra: Shell LSO 21st Anniversary Concert. Conducted by Elgar Howarth in works by Mendelssohn, Jacobs, Cashian and Britten; Jan 21

Queen Elizabeth Hall
Tel: 44-171-960 4242
London Sinfonietta: 30th Birthday Benefit Gala. Including two world premieres, and John Tavener's The Whale. Markus Stenz conducts; Jan 24

St. John's Smith Square
Tel: 44-171-222 1061
Adrianne Pieczonka: recital by the soprano of songs by Strauss, Zemlinsky, Tchaikovsky and Barber; Jan 27

EXHIBITIONS
Barbican Art Gallery
Tel: 44-171-638 8891
● Shaker: The Art of Craftsmanship. First major exhibition of furniture and decorative arts from one of the most influential Shaker communities, Mount Lebanon. The show traces the origins of the Shaker movement from its origins in late 18th century England through its development in 19th century America to what became a philosophy and a way of life; from Jan 22 to Apr 26
● *The Art of the Harley*: 30 customised motorcycles provide the centrepiece of this display devoted to the 95 year history of the Harley-Davidson company; from Jan 22 to Apr 26

Royal Academy of Arts
Tel: 44-171-439 7438
Art Treasures of England: The Regional Collections. Display of some 500 paintings, drawings and sculptures which will tell the history of the public collections outside London, from the foundation of the first university museums in the 17th century to the present. Including works by Canaletto, Hogarth, Turner and Francis Bacon, the exhibition will also seek to surprise with the works of less well-known artists; from Jan 22 to Apr 13

OPERA
Barbican Hall
Tel: 44-171-638 8891
Nixon in China: the UK premiere of Adams' opera is the opening concert of the "Inventing America" festival. Kent Nagano conducts the London Symphony Orchestra; Jan 25

LOS ANGELES

CONCERTS
Dorothy Chandler Pavilion
Tel: 1-213-365 3500
Los Angeles Philharmonic: conducted by Franz Welser-Möst in works by Mozart and Bruckner; Jan 22, 23, 25

OPERA
L. A. Opera, Dorothy Chandler Pavilion
Tel: 1-213-972 8001
www.laopera.org
Salome: by R. Strauss. Revival of Sir Peter Hall's celebrated production. Conducted by Richard Hickox, with Hildegard Behrens in the title role; Jan 21, 24, 27

MADRID

EXHIBITIONS
Fundació "la Caixa"
Tel: 34-1-435 4833
Joaquim Mir, 1873-1940: A Life's Journey. Retrospective of around 140 works by the landscape painter; to Jan 25

MANCHESTER

CONCERTS
Bridgewater Hall
Tel: 44-161-907 9000
● BBC Philharmonic: conducted by Sir Edward Downes in Respighi's The Pines of Rome and Shostakovich's Leningrad Symphony; Jan 24
● Bournemouth Symphony Orchestra: conducted by Yakov Kreizberg in Mahler's Symphony No. 2; Jan 25

MILAN

OPERA
Teatro alla Scala
Tel: 39-2-88791
Il Cappello di Paglia di Firenze: by Rota. Conducted by Bruno Campanella in a staging by Pier Luigi Pizzi; Jan 23, 24

MUNICH

OPERA
Bayerische Staatsoper
Tel: 49-89-2185 1920
Anna Bolena: by Donizetti. Ralf Weikert conducts a staging by Jonathan Miller. Edita Gruberova sings the title role; Jan 21, 24

NEW YORK

CONCERTS
Avery Fisher Hall, Lincoln Center
Tel: 1-212-8755030
● *Israel Philharmonic*: conducted by Kurt Masur in Beethoven's Symphony No. 9; Jan 21
● New York Philharmonic: world premiere of Zorn's Orchestra Variations, conducted by Leonard Slatkin. Programme also includes works by Schuman, Schwantner *and Copland. With percussionist* Christopher Lamb; Jan 22

DANCE
New York City Ballet, New York State Theater
Tel: 1-212-870 5570
Jewels: by Balanchine, to music by Fauré, Stravinsky and Tchaikovsky; Jan 24

EXHIBITIONS
Metropolitan Museum of Art
Tel: 1-212-879 5500
www.metmuseum.org
John La Farge: more than 30 paintings and stained glass *windows by the 19th century* American; to Jan 25

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
● Capriccio: by R. Strauss. New production by John Cox, with sets by Mauro Pagano; Jan 21
● La Cenerentola: by Rossini. *New production by Cesare Lievi* conducted by Levine; Jan 24

PARIS

CONCERTS
Salle Pleyel
Tel: 33-1-4561 6589
Orchestre de Paris: conducted *by Gilbert Varga in works by* Strauss, Kancheli and Dvorák. With cellist Mstislav Rostropovich; Jan 21, 22

OPERA
Opéra National de Paris, Opéra Bastille
Tel: 33-1-4473 1300
Tosca: by Puccini. Conducted by Jan Latham-Koenig in a staging by Walter Schroeter. Maria Guleghina sings the title role; Jan 23, 27

ROME

OPERA
Teatro dell' Opera
Tel: 39-6-481601
www.themix.it
Le Nozze di Figaro: by Mozart. *Production for the Teatro* Comunale in Florence by Jonathan Miller. Conducted by Hans Graf; Jan 22, 24, 25, 27

SAN FRANCISCO

CONCERTS
Davies Symphony Hall
Tel: 1-415-864 6000
www.sfsymphony.org
San Francisco Symphony Orchestra: conducted by Yan Pascal Tortelier in works by *Brahms. Dutilleux and Ravel-* Tortelier; Jan 22, 23, 24

TORONTO

OPERA
Canadian Opera Company, Hummingbird Centre
Tel: 1-416-363 6671
Hansel and Gretel: by Humperdinck. New production, previously seen in the US, designed by Maurice Sendak and directed by Frank Corsaro. The conductor is Randall Behr; Jan 23, 25

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:

06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Mark Gay of FTTV reports live from LIFFE as the London market opens.

Lionel Barber

EU job jugglers

European commissioners should focus on their Brussels job and not use it as a stepping stone to greater things

Yves-Thibault de Silguy, the European commissioner for monetary affairs, this week announced he was no longer a candidate for political office in France. The prospect of Mr de Silguy stomping around Brittany in search of votes in the French regional elections never appealed to his colleagues. Most assumed he would be otherwise engaged in March preparing for the launch of the single currency.

More questionable was whether – in the event of a Gaullist victory – he would have been able to keep his Brussels job and build up an independent fiefdom as president of Brittany council reporting to Jacques Chirac, the president. Now that Mr de Silguy has withdrawn his candidacy, we will never know the answer.

It is tempting to dismiss this affair as a footnote in the annals of the Commission, a familiar tale of personal ambition overriding good judgment. That would be wrong. The story raises a point of principle: whose interests are European commissioners serving?

Those sympathetic to Mr de Silguy cast him as a victim of a misunderstanding. Dual mandates are standard practice in a centralised country such as France. Alain Juppé, former prime minister, served as mayor of Bordeaux. Dominique Strauss-Kahn, the telegenic Socialist finance minister, is being pushed to run in the Paris regional elections. Mr de Silguy, a career bureaucrat, was merely following a tradition of politicians seeking to stay in touch with the grassroots.

The argument ignores the fact that France is slowly decentralising, that the regions are increasingly important power bases, and that Lionel Jospin, the prime minister, is trying to restrict the *cumul des mandats*. Mr Jospin apparently has some sympathy with the public's view that multiple mandates are symptomatic of the French elite's belief that it can fit three jobs into a 20-hour day and still have time for a game of *pétanque* before lunch.

The case for a European commissioner holding two jobs is still harder to sustain. The European Union treaty states that the 20 members of the Commission may not engage in any other occupation, whether gainful or not. The French version is slightly more ambiguous, referring merely to "professional activity". But the spirit of the text is clear: the Commission's independence is paramount.

In practice, matters are not so clear cut. Commissioners do pursue extra-curricular activities. Hans van den Broek, a former Dutch foreign minister who now handles relations with eastern Europe and Russia, has a standing invitation to return to The Hague to attend high-level discussions on Europe.

Mario Monti, who is responsible for the internal market, is president of Bocconi University in Milan – more than a ceremonial post. Edith Cresson, the second French commissioner, served as mayor of the small town of Chatellerault and sought re-election in 1995 just after Commission President Jacques Santer took office. But then not everyone finds it easy to say "Non" to Mrs Cresson. She finally resigned as mayor late last year.

> The trouble starts with commissioners who have too much time on their hands or too little power to achieve very much

European commissioners can never stand completely above the fray. Nor should they. They owe their appointments to national governments. Their contacts with national capitals are important. A talented commissioner can convey unpleasant truths both at home and in Brussels.

When vital national interests are at stake, Brussels *commissioners snap to* attention. On British beef, the Flemish language, French textiles or German worries over pensions portability, the Commission divides on predictably national lines.

Commissioners must reconcile their roles as bureaucrats, diplomats and politicians all rolled into one. Some are more successful than others. Karel Van Miert, the Belgian competition commissioner, pulled off the balancing act brilliantly last summer when he challenged the Boeing-McDonnell Douglas mega-merger and forced a partial retreat in Seattle and Washington. Sir Leon Brittan has left an indelible mark during a near 10-year career in Brussels, latterly as crusader for an open world trading system.

Those commissioners who master a technical brief and build a pan-European coalition are invariably the ones who do best. Those who enjoy powers under the treaties are arguably better placed to promote the collective European interest. But others, such as Emma Bonino, the media darling in charge of humanitarian aid, can appeal to a collective European conscience – especially when she drags the television cameras into Taleban territory in Afghanistan or the refugee camps in the Great Lakes area in Africa.

The trouble starts with commissioners who have too much time on their hands or too little power to achieve very much. Some spend their days travelling to faraway places where they act like colonial emissaries from the 19th century. At least one works on his golf handicap.

No one could accuse Mr de Silguy of lacking energy. By his own calculations, he made 60 trips outside Brussels last year, racking up 120 speeches on European economic and monetary union. He works long hours in Brussels, drives his staff hard, and is a tireless champion of the euro.

Along with Mr Santer, he can claim the credit for the 1995 green paper which set the framework for the introduction of the single currency between 1999 and 2002. But his hard-charging style has been less successful in building a role for the Commission in the post-Emu world, specifically in the search for a permanent place in the Group of Seven forum when the debate turns to monetary matters.

Mr de Silguy has never made a secret that he sees his present post as a stepping stone to greater things. He arrived in Brussels proclaiming that his five-year term was part of a bigger plan. So when a delegation of Bretons sought to persuade him late last year that he should run in the regional elections, he jumped at the chance.

It took a gentle warning from Mr Santer and some public threats from the European parliament to dissuade him from launching a parallel political career in France. If he had only paused to reflect, he would have understood that his Brussels job is about more than being a mere bureaucrat. It requires political skills, too.

LETTERS TO THE EDITOR

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US government has given Emu an unequivocal welcome

From Mr Michael Elliott.

Sir, It seems to have become an article of faith for your otherwise excellent columnists Lionel Barber and, now, Philip Stephens ("Intellectual gulf", January 19), that US opinion is either ignorant of European economic and monetary union or opposed to it. They must visit a country other than the one I live in.

For more than a year, the US government's public policy and private conviction has been to welcome Emu unequivocally. (Indeed, the deputy secretary of the treasury said so in your own pages.) Opinion-formers in Washington and New York have been intimately acquainted with developments on Emu since the Maastricht treaty; newspapers like the New York Times and Wall Street Journal (which has become an important champion of Emu) write about it regularly, as do the weekly magazines. The denizens of Wall Street are as likely to bore a dinner party with Emu talk as are those of the City, though – in my experience – with a better sense of the political realities. At last year's Davos World Economic Forum, I remember American businessmen foregoing sessions with Newt Gingrich to catch the latest Emu news, and I find it hard to think that this year's conference will be any different.

Where Mr Stephens is right is in his implication that US policymakers are not much bothered by whether or not Emu will affect US "leadership" in the post-cold war world. That is partly, I think, because many Americans would find it quite useful to share the burden of having a reserve currency. But it is mainly because Americans – when they think about it all – assume that their leadership has little to do with the status of the dollar, and everything to do with their technological edge, entrepreneurship, and unrivalled ability to project military power. They're right, too.

Michael Elliott,
editor,
Newsweek International,
251, W 57th St,
New York NY 10019, US

EU helping banana producers adapt

From Mr Philip Lowe.

Sir, Your leader, "Banana fudge by Brussels" (January 16), concerning the European Commission's proposal to modify the European Union's banana import regime, accuses the EU of having failed to assist the Caribbean banana producers in improving their efficiency.

In fact, since the existing banana import regime was introduced in 1993, the EU has allocated financial assistance totalling Ecu220m (£146m) to traditional African, Caribbean and Pacific (ACP) banana suppliers.

Of this amount, more than Ecu150m has been made available to the Windward Islands (Dominica, Grenada, St Lucia, St Vincent), which are particularly dependent on bananas and where geographical and climatic conditions render competitive banana production difficult.

This assistance is being directed into three main areas; restructuring of the industry to improve productivity and quality; economic diversification to promote alternative sources of income and employment; social and community development programmes through education and new skills development.

The amendments to the banana import regime now proposed by the Commission are intended to bring it into line with the EU's commitments under the World Trade Organisation. At the same time, we must also respect our commitments to the ACP countries under the Lomé Convention.

The proposal to establish a special framework of technical and financial assistance is intended to fulfil this commitment and proposes a further Ecu45m a year in aid over the next five years and a total of about Ecu370m over 10 years.

Given the genuine difficulty of implementing programmes on the ground to absorb these amounts, it is misleading to describe, as you do, these various schemes for EU aid to the banana producing countries as "miserly".

Rather, our proposals demonstrate that, as in the past, the EU will continue to support ACP banana producers' efforts to adapt to new market conditions.

Philip Lowe,
director-general,
European Commission,
Directorate-General VIII,
Development,
Rue de la Loi 200,
B-1049 Brussels,
Belgium

R&D is now central to job creation

From Mr Georges Haour.

Sir, Your article "The fifth element" (January 15) on the EU's fifth R&D programme provides useful insights into its management and budget, which, by the way, roughly represents only 3 per cent of the R&D investments, private or public, made every year by the 15 countries of the European Union. Rather than concentrating on inputs, however, I wish to underline two aspects of the quality of outcome.

First, the framework programmes have powerfully catalysed the emergence of a truly borderless R&D community. In particular, in the last 10 years, academics have rapidly grown to know their peers much better in other countries, drawing on Europe's unique richness of diversity. The fact that Switzerland is so keen to be part of this process is a testimony to this fact.

Second, the fifth programme has been prepared in the context of the EU Commission's "Green book on innovation". Such a dynamic powerfully reinforces the message that R&D investments must be envisaged as the central ingredient for wealth- and job-creation. It is vital that European taxpayers and members of the funded projects fully realise this further shift away from capability-building towards technological innovation for growth.

Georges Haour,
professor of technology management,
IMD-International Institute for Management Development,
Lausanne,
Switzerland

Agriculture too important a ministry to be abolished

From Mr J. G. Cousins.

Sir, Your excellent leader "A safe plan for food" (January 15) was completely spoilt by the preposterous suggestion in the final sentence that the remains of the Ministry of Agriculture, Fisheries and Food should be closed down. I am but on the fringe of agriculture – I produce a small amount of wool and sheep meat and free range eggs (fowl, duck and goose) – and I would prefer to leave it to others better qualified than I to make the case for MAFF. May I just make three points:

- The production of the nation's food is too important to be left purely to market forces – a point ably made by David Richardson, your erstwhile agriculture correspondent;
- No government in the western world, as far as I am aware, is devoid of a ministry of agriculture;
- I have received tremendous help and support from MAFF in my efforts to improve the environment on my few acres.

J. G. Cousins,
"Downlands",
Small Dole, Henfield,
West Sussex BN5 9XH, UK

Personal View · E. Wayne Nafziger

Root of human suffering

Poverty and poor government are the main causes of humanitarian disasters

Every month we read new stories of atrocities in countries such as Afghanistan, Bosnia, Burundi, Congo and Rwanda. The perception that there are more such disasters than there used to be is correct. Since 1990, the number of humanitarian emergencies – identified by deaths and refugees from internal conflict – has increased from 20-25 a year to about 65-70. The number of people affected has risen several fold to more than a million.

These increases have not been affected by just one or two spectacular events, such as the wars in Bosnia or Rwanda. In 1997, when the violence of both those events had ebbed, thousands of people still died from war, genocide, hunger and disease, and millions became refugees. The same, it seems almost certain, will be true in 1998.

Is it possible to prevent this scourge? In the short term, refugee aid serves as bandaid. But, according to our research at the UN University, in the longer run, there are cheaper strategies to reduce the risk of humanitarian disasters.

Our work, conducted by 42 scholars, used an econometric analysis of 124 developing countries over the past 16 years, combined with case-study evidence from 15 countries. The aim was to examine the sources of humanitarian emergencies.

Many people believe that humanitarian disasters are ethnically determined, arising from differences of language, race, tribe or national origin between disputants. These differences, it is thought, are so deeply rooted that they are not amenable to economic and political reform; violence cannot be avoided. That is too pessimistic a conclusion.

Our research focuses on the contribution to humanitarian crises of two factors: national income and the role of the government. Both provide some reasons for modest optimism, or at least subjects for action.

It is obvious that wealth makes a huge difference, if not to whether ethnic differences exist, but to the extent of the problems they cause. Canada and Spain both contain minority language regions but, despite political conflicts, neither Quebec nor the Basque country have tipped into humanitarian disaster. Nor has Northern Ireland, despite a high level of violence. Wealthy countries rarely experience humanitarian disaster.

This connection between income and disaster-avoidance is not something that occurs only in industrial economies. Our research shows that among the 124 developing countries a doubling of income per person decreases the probability of a humanitarian crisis by 13 per cent. Obviously, there are exceptions: Sri Lanka is a relatively prosperous country blighted by civil war. The same is true of the former Yugoslavia.

But, by and large, the connection holds and the reason seems to be that the poorest countries are blighted by macro-economic instability, rapid inflation and large income differentials. These produce feelings of relative deprivation and crises of unfulfilled expectations, which can be channelled into ethnic violence. This is particularly associated with countries which are not merely poor but which have experienced protracted economic decline (especially of food output). More than half the countries experiencing emergencies in the 1990s had a decline in average incomes in the 1980s. All these provide further reasons for seeking economic growth and stability.

> Often, the problem comes not from an aggressive government but from rival governing groups struggling for scarce resources

The second lesson from our research concerns the government. Humanitarian emergencies are caused mostly by the actions of the state and only rarely by insurgents. This was true in Rwanda, where the then government organised, and used the media to publicise, genocide. It was also the case in the former Yugoslavia. Governments tend to act in this way when the economy is declining. This reduces the number of their allies, undermining their power and increasing the probability of political instability. To forestall such threats, ruling elites often use political violence to steal an even larger share of the population's income. A particularly clear example was Sudan in the 1980s, when the government directed violence against the politically disobedient Dinka and Nuer tribes.

Often, the problem comes not from an aggressive government but from the struggle between rival governing groups for scarce resources, such as education or revenue allocation. Examples include the struggle for oil revenues and employment in government in Nigeria in the 1960s, and the conflict between Hutu and Tutsi for the control of the state and access to employment in Burundi and Rwanda.

These two factors – poverty and governmental action – explain why Africa has suffered more than its share of humanitarian disasters since 1980. African political leaders faced increasing pressure from declining income. External pressure by the World Bank, International Monetary Fund and western donors to cut the size of the state in order to encourage economic stability in practice triggered increased competition for governmental resources and ended up contributing to greater instability.

An analysis of the root causes of humanitarian crises indicates that the mechanisms for preventing them are primarily macro-economic. Prevention requires greater international support for income stabilisation and adjustment planned by the developing countries themselves, a reduction in trade barriers against Africa and Asia, compensatory financing to cushion external economic shocks, and rescheduling and writing down the debt of poor countries. It would also help to reduce the international trade in arms, which are used by governments to kill their rivals.

For their part, low-income countries need to provide safety nets for the poor and universal basic education, emphasise agricultural development, and improve the capacity of the state to collect taxes and provide services. All these things are worth doing for other reasons. But reducing humanitarian emergencies would be a great side benefit. Unless it is done, the world will continue to spend vast sums on food aid, peacekeeping and diplomacy to cope with humanitarian emergencies.

The author is a senior research fellow and co-director of research on humanitarian emergencies at the UN University's World Institute for Development Economics Research in Helsinki

FINANCIAL TIMES
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Euro-voice in finance

When US Treasury officials journey around Asia, their stay-at-home European counterparts become jealous. US policy-makers respond by complaining that Europe's failure to speak with one voice makes closer co-operation infeasible. An obvious question is whether the euro will make much of a difference. The answer is that it could – but will not do so automatically.

The Asian crisis has once again demonstrated the central roles played by the US, as leader, and the International Monetary Fund, as chief agent, with others reduced to paying the cheques. US leadership is usually essential and often sensible, but its dominance creates understandable frustration.

The opportunity for Europe to play a bigger role would appear to be given by economic and monetary union. Members of the euro area will be represented by a single European Central Bank. Thus, in global monetary affairs it may soon be possible to talk of a group of three, with all other central banks being marginal players.

The difficulty lies where national finance ministers continue to hold sway. Here there are two broad categories of issues: those closely related to the euro, such as the exchange rate, and those where policy will remain largely national, such as taxation.

Common policies will have to be negotiated among the members of the euro-zone. Then someone representing the new committee of euro finance ministers should present it. That spokesman need not be – probably should not be – a representative of the European Union's six-month presidency.

Where policy is subject to national responsibility, it will still be necessary for countries whose policies have considerable international impact to participate individually in global discussions. Over time, however, it may be possible to agree those policies, too. In that case it will, once again, be possible for a single representative of the euro finance ministers to present them.

Yet this shift towards collective representation need not make the process of global co-ordination much simpler. It should be simpler where the central bank alone is concerned, since it is a single body. But it will not be in virtually every other policy area, since Europeans will be increasingly committed to a two-stage negotiation, first among themselves and then with counterparts abroad. To become more effective, Europeans will have to streamline internal discussions.

Yet the aim must be not just to give Europe a louder voice in the world, but one worth listening to. The creation of the euro will not of itself give Europeans a wiser perspective on the world. But it should give them an incentive to develop one.

After Castro

The visit that begins today of Pope John Paul II to Fidel Castro's Cuba brings together two of the great icons of the late 20th century. Yet the meeting of the two septuagenarians offers more than symbolism; it is an important opportunity to create a bridge to Cuba's future.

That future will, sooner or later, be one without Fidel Castro. Yet nobody has any idea what sort of future it will be. In the worst case, the island will be riven by violent struggle. It is in Cuba's interest and that of its neighbours – including the US – that this does not happen.

It is also in Mr Castro's interest, for he must want to preserve the gains of his revolution. These – for example, in healthcare and in education – have come at a heavy cost in personal liberty, and they are tainted by the economic privation of the past eight years. But they are gains all the same.

Few men have the moral and intellectual stature to engage Mr Castro about what happens when he goes. Perhaps the frail pontiff – no friend of unbridled capitalism in spite of his antipathy to communism – is the only person who can, and in the process begin mediation with the US.

The opportunity for accommodation with Washington may have grown with the death late last year of the powerful leader of the hardline US exile opposition to Cuba, Jorge Mas Canosa. This leaves scope for a gesture towards Cuba by President Bill Clinton. He has freedom to act in any case because he faces no further elections. A more mature debate than has yet been possible in the US about American interests in Cuba can thus begin.

There have been some modest signs of willingness in Washington to ease the US embargo on Cuba for medical supplies, for example. This would help many ordinary Cubans who have suffered most from the deep economic recession caused by the collapse of the Soviet Union, Cuba's financial sponsor for 30 years.

Cuba's economy has revived somewhat since the trough of 1993-94, but not by much. Mr Castro is dreaming if he believes that conditions are in place for any significant improvement in the island's economic fortunes.

A process of engagement between the US and Cuba would be unlikely to yield rapid results and would require a genuine desire on both sides to find a solution. Mr Castro may prefer to ignore the question of what happens after he goes – and enjoy the cheap but transitory propaganda benefits that the Pope's visit will generate. But if he does, he may miss an unrepeatable chance to give his revolution a future.

Africa's debt

The world's richest nations meet today to discuss the fortunes of one of the poorest. For the fourth time in as many months, members of the Paris Club of bilateral creditors will be trying to reach agreement on the level of debt relief they are prepared to offer Mozambique.

Compared to the $40bn-plus bail-out of Indonesia they are helping to underwrite, the extra $350m they must find to bring this impoverished country's debt within its capacity to service is modest in the extreme. Having swallowed a camel, the Club is now straining at a gnat.

Yet the outcome of the Paris meeting is not only critical for Mozambique, struggling to recover from a 16-year civil war in which more than 1m people died. At stake is the joint World Bank/IMF initiative launched in September 1996 to reduce the debt of highly indebted poor countries – most of them in Africa – to a manageable level.

Implementation of the plan to relieve Mozambique's $5.6bn debt has been held up by disagreement in the Paris Club on what proportion of their lending to the country should be eligible for relief. The Bank and Fund maintain that it must be 90 per cent if Mozambique's debt servicing is to be sustainable. That view is shared by Britain and the US. But Japan and Germany are understood to be insisting on a ceiling of 80 per cent.

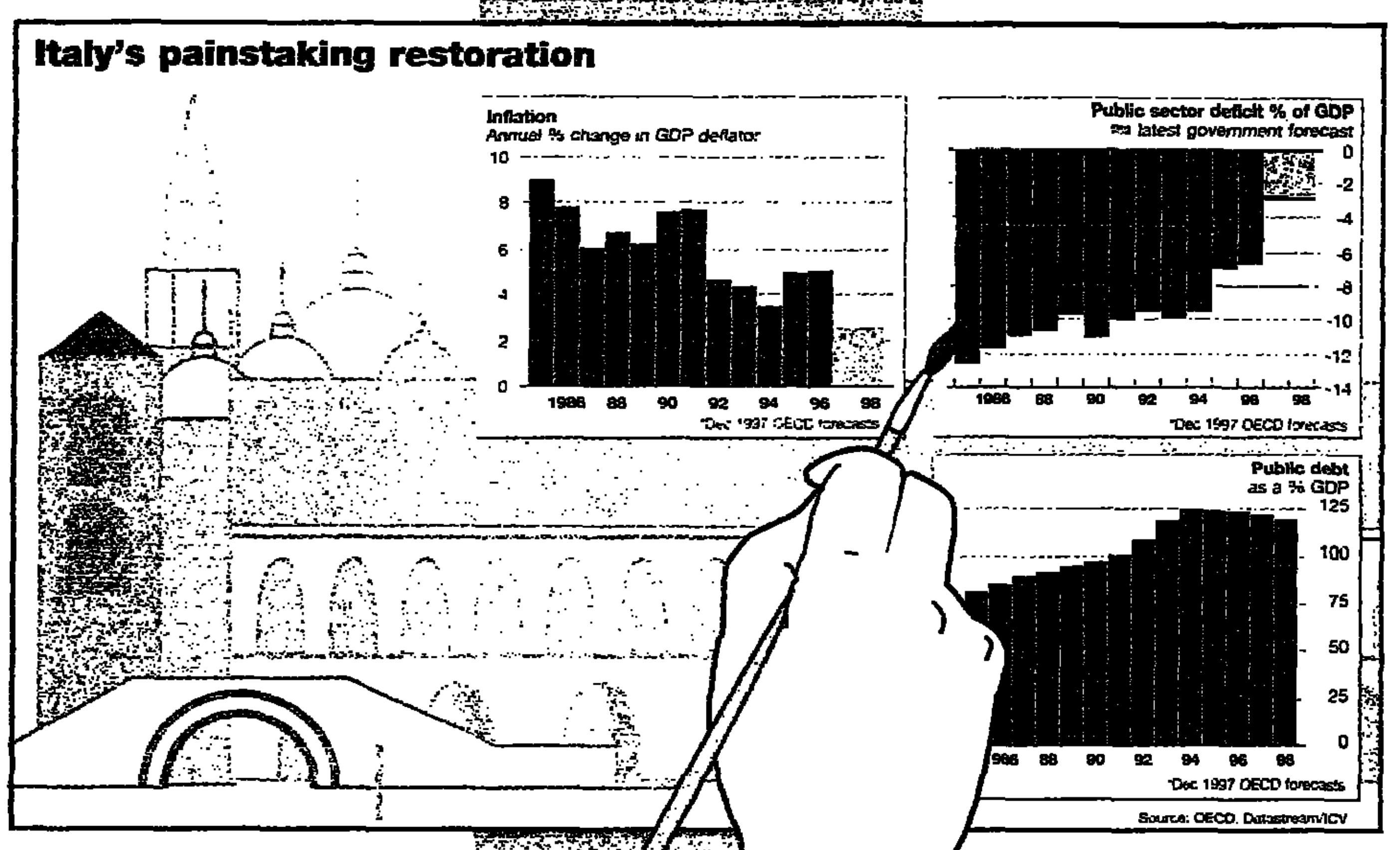
Paris Club members are owed the most, so their decision is critical to a deal, because a condition of the initiative is that the burden must be shared proportionally among all creditors. While it would be the first time the club had offered relief for more than 80 per cent, it would be setting a precedent that few other countries could follow because Mozambique is both uniquely disadvantaged and unusually deserving.

It is suffering the consequences of a civil war that left its economy devastated and its infrastructure in ruins. Of a population of 18m, about 10m have no access to clean water, and about 190,000 children die each year before the age of five. And it has held multi-party elections following a peace agreement in 1992, coupled with reforms to deregulate the once-socialist economy, putting the country on the path to recovery.

But Mozambique is burdened by an external debt nine times the size of its annual exports. The amount it spends on servicing that debt is four times what it spends on health. This is not only unsustainable. It is morally unacceptable. Yesterday the Archbishop of Canterbury urged Africa's creditors to mark the millennium "by relieving her of the burden of unpayable debt". Mozambique is the right place to demonstrate the "moral courage" he is calling for.

Italy's picture of health

James Blitz looks at the extraordinary transformation of the country's prospects of joining Europe's single currency



Pinch yourself. It now looks a pretty safe bet that Italy will be a founder member of Europe's economic and monetary union at the start of next year. That is the likely upshot of Monday's meeting of European Union finance ministers. Only 20 months ago, when the centre-left government of Romano Prodi came to power, the prospect of Italy being in the first wave was considered unthinkable by its partners. The turnabout is startling.

Until recently, Italy had a stack of problems that towered above those of any other European Union state. The lira had been expelled from Europe's exchange rate mechanism in 1992. The budget deficit – almost 7 per cent of gross domestic product in 1996 – looked out of control. There were massive demonstrations against the government's main public-finance policy, pensions reform. The government of former prime minister, Silvio Berlusconi, was mired in scandal and Italy's attempts to clean up its corrupt ruling class looked, to put it politely, disappointing.

Yet in the period Mr Prodi has been in office, Italy has transformed itself. It has not overcome all its problems of course (notably corruption). Nor are its improvements necessarily permanent. But from being a rank outsider in the Emu stakes, the Prodi administration is turning Italy into a country whose entry into a single currency is now regarded as a racing certainty. How did it do this?

Part of the explanation comes from events outside Italy's borders. The determination of Lionel Jospin's government in France to have a softer euro has strengthened the case for Italian membership. The French government is clearly keen to have an Italian counterweight to Germany within the newly created European Central Bank. There is the suspicion, too, that France may fear the consequences of leaving Italy out of the euro, allowing the Italians to wield the weapon of devaluation to boost exports at its neighbours' expense. All that is accepted even inside the Italian political establishment.

But France's determination – now endorsed by the German government – to allow Italy in would have come to naught if Mr Prodi and his allies had not achieved a remarkable turnaround in the public finances. At the end of 1996, the budget deficit was 6.7 per cent of GDP, easily the largest among the big countries of the EU and more than twice as much as the Maastricht criterion. The figure for 1997 is expected to have dropped to below 3 per cent, meeting the Emu target.

Annualised Italian inflation in 1997 was 1.7 per cent, less than half the previous year and at a 30-year low. Mr Prodi himself, after nearly losing office last October when the rump of the Communist party stopped supporting his coalition, has since shown a sure political touch.

None of this has entirely crushed the concerns of some politicians and central bankers across Europe about Italy's fitness for Emu. Concern centres above all on Italy's public debt which, at 122 per cent of GDP, is more than twice the Masstricht criterion and is, in value terms, easily the largest in the euro area. Gerrit Zalm, the Dutch finance minister, recently hinted he might resign if Italy made it into the single currency. A Bundesbank council member, Klaus-Dieter Kuehbacher, said last week that Italy would have to be "more critically assessed" than other EU states in its Emu bid because of its debt. Comments like these will echo in central banks and government departments across Europe between now and May, when the final decision is taken on which states qualify for Emu.

But the fundamental lesson of the past few days is that none of this sniping over Italy's finances has breached the Franco-German political consensus that the lira must be in the first wave. Monday's meeting of EU finance ministers was a last chance for the Dutch to raise formal concerns about Italy and Emu but Mr Zalm remained silent. Meanwhile, Chancellor Kohl's visit to Mr Prodi last night was being hailed, in Rome at least, as signalling a warming of the relationship between the two men in the final stage of Italy's Emu bid. The leader of the country most associated with scepticism about Italy's readiness now seems to be seeing for himself how the worries are being overcome.

Yet it is one thing for Italy to get into Emu, quite another for it to stay there. So, with Monday's meeting over, the focus of attention is beginning to move away from what the Italians have achieved over the past two years to what they need to do over the next 10. There are two big concerns: how quickly can Italy reduce the level of overall debt so it poses no further problem to the public finances? And how quickly can the Prodi government reform Italy's inefficient private sector and rigid labour market to ensure the country does resists external economic shocks in the more competitive euro area?

The size of the public debt is the more immediate worry. When it joins Emu, Italian interest rates will fall (towards German rates), which will cut annual debt repayments. *But the fear is that*, unless the debt comes down quickly, Italy will later be exposed to sudden rises in short-term interest rates that increase debt repayments and make it hard to keep the annual budget within the terms of the EU stability pact on economic *policy after Emu. According to* HSBC Markets in London, Italy's cost of debt servicing would, on average, move up by 0.6 per cent of GDP for every half a percentage point rise in short-term rates.

Moreover, a speedy reduction in the public debt is essential because Italy will face increased pensions liabilities in the second decade of the next century when the "baby boom" generation starts to retire. According to Italian treasury figures, the reforms *introduced thus far will contain* pensions spending at or below 14.5 per cent of GDP – double the EU average – until 2007. But that figure is set to rise to 15.8 per cent after that.

To counter these concerns, Carlo Azeglio Ciampi, Italy's treasury minister, last week published a plan that, it claims, could halve the debt ratio to 60 per cent of GDP in 2009. The assumptions are certainly ambitious: to do this, Italy would need growth in nominal *GDP of* 4.5 per cent a year and a primary budget surplus (excluding interest repayments) of 5.5 per cent.

Dr Klaus Friedrich, chief economist at Dresdner bank, believes these figures are so *tough* that they are "frightening". In his view, maintaining a primary surplus at this level over 12 years would imply there could be little easing of the high tax burden on Italian families over the next decade and little room for public spending increases.

The Italians claim it is not as bad as this and that they have *some room for manoeuvre.* Francesco Giavazzi, a former deputy director general of the treasury, argues that the government could speed up Italy's privatisation programme, using the proceeds to reduce the debt stock. If this is to happen, he says, it is critical that Mr Ciampi announce plans to press ahead *as fast* as possible with the sale of the rest of Eni (the state-controlled oil and gas conglomerate) and Enel (the state electricity company).

Prof Giavazzi also believes the government must start slimming down the central government machine, one which has, for example, 27,000 employees at the treasury and 10,000 working at the Italian state's job placement office. The problem with all these reforms, however, is that they *require broad agreement from* Italy's far-left coalition partners and the country's powerful trade unions.

The second big long-term concern for Italy will be whether the inefficient bits of the private sector can improve enough to compete in the newly competitive single currency area. The fear is that inefficiency and overmanning in some *sectors – particularly banking*, finance and parts of industry – is so bad that it could result in short-term shocks that increase unemployment sharply. There are fears, too, about the rigidity of Italy's labour market, with high and stagnant unemployment in the south and large numbers of companies unable to fill job vacancies in the north.

The Prodi government shows *every intention of wanting to* tackle this issue but is coming up against the power of Italian unions. The government has for months been trying to get an agreement between industry and the unions to cut the number of workers in the banking sector by some 40,000. No deal has yet been reached. Similar attempts are being made to cut jobs in the state railway service – currently losing some L4,000bn a year – again without success. Mr Prodi recently announced a deregulation of Italy's rule-ridden retail sector. Here, too, he is facing resistance.

"*It is in the area of competi*tiveness," says Professor Giavazzi, "that Italy runs the real risk in the long term. The country will be accepted into Emu by its European partners who view Italy as a big market into which they can sell their goods and services. But there could be a short-term adjustment in terms of job losses which Italians are not expecting, and the Italian public may find, to their surprise, that the people running their *banks are located in other parts* of Europe."

Professor Giavazzi does not think Italy will lose out from joining Emu. Italy has always benefited from having an external constraint. Once it was anti-Communism and Nato. Now it is the Franco-German goal of mone*tary union. But what Italians* may not yet have realised is that the wrenching transformation needed to get the country into Emu will pale into insignificance compared with the transformation that will be required to keep it there.

· OBSERVER ·

Industrial chemistry

■ Plenty of head-scratching among drugs industry boffins about the mooted merger of SmithKline Beecham and American Home Products. But whatever the industrial logic, the deal looks like an almost perfect fit in the boardroom.

Jack Stafford has been running AHP for more than a decade. But the tough lawyer lost his heir-apparent last summer when Fred Hassan upped sticks to run Pharmacia & Upjohn. At 60, and following a recent bout of serious illness, Stafford might like to cap his *career with a mega-merger* before making a graceful exit.

Hyperactive SB boss Jan Leschley may also feel it's time for a change. It's three years since the former tennis champ served up his last set of deals: he's only 55, but industry insiders don't expect him to remain *chief executive into his* dotage. A post-merger reshuffle – with Leschley moving up to say, co-chairman – would *probably suit the SB camp. All* the more so if the energetic JP Garnier, impatient with playing second fiddle to Leschley, could slip into the top executive slot.

Of course, talks might founder on trifling disagreements over the odd billion dollars. But in an industry full of volatile types, wouldn't it be nice to see a deal where the chemistry is right?

Mart times

■ Observer hears that Chicago's enormous art deco Merchandise Mart, a linchpin of the Kennedy family's commercial empire since the 1940s, is for sale.

So has the Kennedy clan hit *hard times? There have been* signs of strain recently – the authoritative Crain's Chicago Business says family companies borrowed $85m against one Chicago property last August, and in 1996 added $30m to a $190m mortgage on the Mart.

Many family members have *followed relatively modestly paid* political careers while maintaining millionaire lifestyles, and re-elections – like Senator Ted Kennedy's campaign a few years ago in his home state of Massachusetts – are expensive. Divorces and maintenance settlements can't *have helped, so the current* strength of the Chicago property market seems a golden opportunity to generate some *cash. The Mart is expected to* fetch about $400m.

No change

■ Brussels yesterday celebrated – if that's the word – 40 years of European competition policy with a lunch for its founding fathers, Hans von der Groeben, the first competition commissioner, and Pieter VerLoren van Themaat, the first director-general.

Van Themaat said he could never get Belgian ministers to toe the line. "That is still the case today," sighed former Belgian minister Karel Van Miert who, as the current *competition commissioner, leads* the continuing struggle to sell the virtues of competition to his reluctant native land.

Zigzag path

■ Indonesia's President Suharto seems to have his eye on science and technology minister Bakharuddin Yusuf Habibie as his presidential running mate. Habibie, a Suharto protégé since childhood, is the best fit for yesterday's presidential wish-list of being "loyal, with a knowledge of science and *technology and able to perform* in international forums".

If the 61-year-old German-educated engineer gets the *second-top* job, he might test out the "zigzag theory" he came up with last year to solve the country's persistently high interest rates. The idea was that rates should be slashed, pushed up again to fend off overheating, then slashed again: the cuts would be deeper than the increases, giving a somewhat jagged downward trend.

With the rupiah on the floor, some original thinking is certainly called for, though the zigzag sounds a little too eccentric: judging by their reaction yesterday, the markets certainly think so.

Flower power

■ Bonn technology minister Jürgen Rüttgers had to admit yesterday that Germany has some way to go before boffins can turn it into Europe's leading biotechnology centre.

Apparently the internationally renowned Max-Planck research institute recently wanted to move a genetically altered petunia from Cologne to an exhibition in the nearby town of Wesseling. To help the authorities protect the public, researchers had to complete a mountain of paperwork, including a precise description *of the route, and nominate a* "biological security officer" to ensure that the plant stayed under a glass dome.

Much of the case of the lonely little petunia in its onion-shaped dome had its origins in European Union rules which the Bonn government wants to change. But there are plenty of home-grown restrictions waiting to be pruned.

The Financial Times

100 years ago

A Respectable British Island
Very few people, unless they are connected with the Foreign or Colonial Offices, know much about Rodrigues, or care very much either. For the information of the majority, we may inform them that it is not the name of a Spanish brigand, but of a respectable British island, connected with our Dependency, the Mauritius. It is eighteen miles long and six miles broad, and Mr. Colin, our Resident Magistrate, has written a book about it. It takes some time to bring the voluminous statistics of Rodrigues into order, so it is not surprising that the figures given do not cover a more recent period than 1896. From an inspection of these we gather that crime diminished, although more persons were convicted.

American Railroads
It is a promising sign of the times that during 1897 only eighteen American railroads *went into the hands of* Receivers, and of those only three were lines of any importance, or of which anything is ever heard over here. The list of Receiverships is a sort of barometer, going up or down according to the commercial condition of the country. *Thus in 1876* there were 42, and then the number fell away each year until in 1881 there were only five.

FINANCIAL TIMES
Wednesday January 21 1998

UK to review offshore islands' finance systems

By Clay Harris and Jimmy Burns

The UK government yesterday surprised the offshore centres of Guernsey, Jersey and the Isle of Man by launching a wide-ranging review of their financial systems.

The review will look at the islands' laws, systems and practices for financial services regulation and company registration and the way they deter, investigate and punish financial crimes, including money-laundering.

Jack Straw, home secretary, said it was vital to UK financial services that the islands' systems were seen to be policed effectively since "any regulatory deficiencies could be seen – however inaccurately – as reflecting poorly on the standard of regulation in the UK itself".

The exercise is to be undertaken in concert with the islands' own authorities. It got off to a rocky start because it was launched without warning, a move condemned by Jersey's "chancellor". Frank Morgan, president of the finance and economics committee of the States of Jersey, said: "We have long-standing consultation channels and we are at a loss to see why they have not been followed."

Laurie Morgan, his Guernsey counterpart, said the island's authorities had learned of the review when they were sent a copy of the Home Office press release yesterday morning.

The islands said they had no objection in principle to a review but would ensure that terms of reference were acceptable before responding.

The six-month review, which will be led by Andrew Edwards, a former senior Treasury official, could put political strains on the semi-detached constitutional status of the self-governing Crown Dependencies.

The UK has ultimate power to force changes, but this possibility was played down by Lord Williams of Mostyn, home office minister. "This is not an intervention," he said.

Lord Williams said the review would not cover the use by UK residents of the islands' beneficial tax regimes.

It also does not apply to the UK's 13 dependent territories, some of which have featured in recent investigations into illegal capital transfers and money-laundering.

According to Foreign Office officials, however, steps to tighten up on their operations have been taken in the aftermath of the collapse of Bank of Credit and Commerce International.

The Foreign Office said last night that further regulations were being considered as part of an overall review of the UK's constitutional relationship with its dependent territories which was announced in August.

An initial report is expected to be delivered to dependent territory officials at a conference early next month.

Recording groups set for battle over online revenues

By Alice Rawsthorn

Record companies are bracing themselves for fresh battles with their artists about the sharing of revenues from music sold and distributed digitally across the internet, or high-speed telecommunications systems.

So-called online sales, whereby music is downloaded into consumers' computers as a digital signal, are expected to increase rapidly during the next few years. Until now, such transactions have been limited to small pilot projects.

Multinational music groups, including PolyGram of the Netherlands and Germany's Bertelsmann, are finalising plans to launch more ambitious schemes, and have recognised that they will have to renegotiate their artists' contracts to agree terms of payment.

"What is clear is that record companies hold the rights for digital distribution, but we haven't worked out how to share that revenue with our artists," said Strauss Zelnick, president of BMG (North America), the Bertelsmann-owned record label behind Puff Daddy, Elvis Presley and Toni Braxton.

The last time recording contracts were renegotiated on such a wide scale to accommodate a new form of distribution was after the launch of the compact disc (CD) in the early 1980s.

Most record companies eventually agreed to pay the same royalty on CDs as on vinyl and cassettes. Typically, this represents 20 per cent of wholesale prices in Europe for superstars and less for newer artists, with an equivalent percentage of the retail price in North America.

But record companies insisted on paying a lower royalty for several years to recoup their investment in CD development. Many artists complained about this, notably George Michael who claimed Sony Music had reduced his CD royalties for too long in his unsuccessful 1994 court case.

Record companies have added catch-all clauses to contracts covering "any other form of distribution", which should include online sales, but the terms of payment are intended to cover relatively small sums.

Mr John Glover, chairman of the International Managers Forum, which represents artists' managers, said such clauses were "wholly inadequate", given the digital market's potential. Jupiter, a US research consultancy, estimates $1.64bn-worth of music will be sold online by 2003.

Discord over royalties, Page 8

THE LEX COLUMN

Research riches

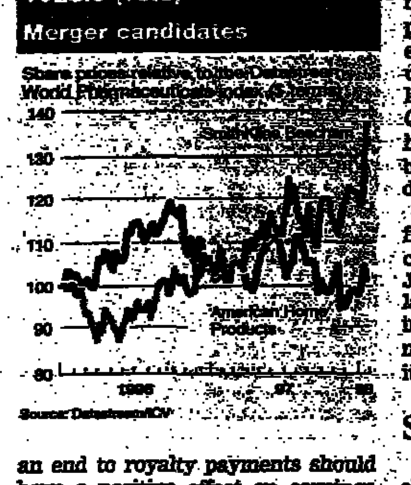
It's the research, stupid. SmithKline Beecham and American Home Products do not need to merge. Both are growing at around 13-14 per cent a year and SmithKline, in particular, has a promising product pipeline. But the opportunity of creating a giant with the resources to throw $2.5bn-$3bn annually at R&D seems too good to miss. Particularly, since technology advances are about to deluge the pharmaceutical industry with new drug candidates.

A merger would bring other benefits too. It would transform two companies being squeezed out of the top 10 into the world's number one. SmithKline's dynamic management would neatly fill the vacuum at AHP, and since both companies are effectively American there should be fewer cultural problems than at Pharmacia & Upjohn. Cost savings may not be the prime focus, but synergies should still be substantial. A 15 per cent cut in the smaller company's cost base – AHP's – would yield $1.7bn. Taxed and on a multiple of 10 times earnings that amounts to $12bn, almost the increase in the groups' market value since the deal was mooted.

Both were quick off the mark during the drug industry's last consolidation wave in 1994. And the prospect of a $130bn behemoth cornering a big chunk of an essentially finite pool of R&D leads should give rivals pause for thought. SmithKline's chief executive, Jan Leschly, has been adamant that bigger does not mean better. But he would surely like the chance to prove himself wrong.

FTSE Eurotop 300 index
1025.0 (+3.5)

Merger candidates



Source: Datastream/ICV

Hongkong Telecom

Hongkong Telecom's shares jump 3 per cent on news the company is being deprived of its international monopoly. Odd? Not really. That the company would have to cede its monopoly before its expiry in 2006 has long been clear. The opening of Singapore's international market was a spur to competitive liberalisation in the region that pricked free-market Hong Kong's pride. What has depressed the shares has not been fears that the monopoly would be lost, but how much compensation HKT might win in return.

Given that its share of outbound traffic had already slipped below 75 per cent with the flourishing of call-back services, the package looks generous. The combination of HK$6.7bn (US$866m) in cash, the right almost to double residential line charges over three years and an end to royalty payments should have a positive effect on earnings from 1999. Furthermore, the two-step move to full competition will soften the blow. While rival companies will be allowed to offer international services by re-selling capacity on HKT's network from 1999, the real force of competition will only be felt from 2000 when rival networks will be permitted.

From majority-owner Cable and Wireless's viewpoint, this deal may bode well for its possible involvement in the eventual modernisation of China's telecoms infrastructure. But rather than contemplate such imponderables, the UK-based operator might be better advised to find a good use for the cash in cheap Asian assets.

US banks

Asia's crisis is hitting America's international banks in waves. The first impact came from trading losses, which Chase Manhattan warned of back in November. This was followed by a drop in local business and the effect of unfavourable exchange rates. Citicorp attributed two-thirds of an estimated $250m "Asian impact" on its profits to those two factors. Now J.P. Morgan has raised the spectre of potential bad debts by classifying $587m of Asian loans as non-performing – a staggering 11 per cent of its $5.4bn exposure to Indonesia, South Korea and Thailand.

In part, Morgan is doing this simply because it can. It seems unlikely that this much of its portfolio has gone sour this quickly. But with over $1bn of general loan loss provisions tucked away on its balance sheet, the bank could write off that amount of non-performing loans twice without affecting profits. By making a clean breast of possible problems early on, it should enhance its super-conservative reputation. And Morgan's action challenges its rivals to follow suit. Both Chase and Citicorp, for instance have significant Asian exposure, but recorded a drop in their bad debt provisions for 1997.

Another worrying trend evident from yesterday's results is that costs have continued to climb. At J.P. Morgan, they rose 12 per cent last year against 5 per cent growth in revenue. With Asia hitting business and bad debts set to rise, profits could be in for a squeeze.

Somerfield

Somerfield shares have had an electrifying start to the year, rallying nearly 20 per cent in only two weeks. The only snag is that takeover speculation looks fanciful. Of the big four supermarket groups – Tesco, J. Sainsbury, Safeway and Asda – it is not clear why any would want Somerfield's portfolio. The trend is towards building larger stores, while Somerfield's average store size is much smaller. And while Tesco is building smaller in-town Metro stores, these tend to be in much better locations than Somerfield.

As for chains of smaller stores, such as Kwik-Save, it is doubtful they have the requisite financial muscle. One thing which might change this would be an event – such as the mooted Safeway/Asda merger – which transformed the industry landscape. Until such time, Somerfield must stand on its own two feet. To be fair, management has made solid progress. Good buying and a better selling mix have contributed to a 3.5 percentage point increase in gross margins over the past three years.

But this rate of progress is not sustainable. To keep earnings moving ahead, management will need to engineer stronger sales growth. Store refurbishments and new openings offer some potential: with like-for-like sales growth running at only 0.3 per cent, this urgently needs to be realised. The sector's defensive attributes and a modest rating should underpin the share price. But a rerating will await clearer evidence of sales growth, or more credible talk of a predator.

Additional Lex comment on small companies, Page 24

Sea cargo rates fall by average 20%

Continued from Page 1

made it expensive to import goods.

However, Paul Dowell at shipbrokers Howe Robinson expects volumes to pick up afterwards as Asian manufacturers seek to increase exports. This should lead to an increase in the demand for imported raw materials.

Shipowners are feeling the pinch because the crisis has hit a market that was already weakening.

Encouraged by the buoyant mid-1990s, shipowners invested heavily in building new ships, many of which are now arriving on the market at the worst possible time.

The container shipping fleet, for instance, is expected to increase by around 12 per cent in tonnage terms this year. In 1997, it grew by 16 per cent. The dry bulk cargo fleet is expected to increase by 5 per cent in the next six months alone.

New construction was predicated on the belief that a medium-term growth rate of 7-10 per cent for the container market would be maintained.

Last year, when this was actually achieved, charter rates still fell by more than 10 per cent, as overcapacity bit into margins. Most analysts accept that this year is going to be far worse.

"There is a chronic oversupply of shipping at the moment," says Mr Dowell. "Combine that with a real reduction in the number of cargoes going to the Far East and that creates a real headache for shipowners."

Defiant Suharto to seek seventh term

By Sander Thoenes in Jakarta

President Suharto of Indonesia yesterday confirmed he would run for president in March, defying calls for his resignation amid a steadily worsening economy.

Golkar, the party that dominates parliament, also gave a strong hint that Bakharuddin Yusuf Habibie, minister of science and technology, would be a front-runner for the vice-presidency.

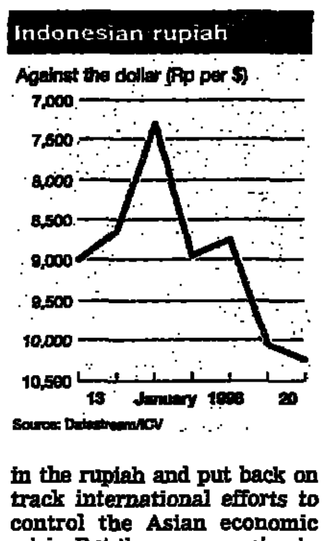
Rumours that Mr Habibie, 61, was the president's first choice helped send the rupiah into a tailspin on Monday. "Everybody is afraid that Suharto will not complete the next five years. That means Habibie would step into the presidency," one political analyst said. "That's what worries the market. Spend, spend, spend is his policy."

Much attention has focused on the vice-presidency, particularly since the president disappeared from the public eye for 12 days in December. He is believed to have had a mild stroke but aides have insisted he was merely tired. In recent appearances, Mr Suharto has surprised observers by looking fit and energetic.

The local currency, the rupiah, fell from Rp9,575 to Rp10,575 to the US dollar yesterday before the announcement that Mr Suharto was seeking a seventh term in office. In late European trading, the rupiah was at 10,000 to the dollar.

The International Monetary Fund stepped in with a rescue package last week, in an attempt to restore confidence in the rupiah and put back on track international efforts to control the Asian economic crisis. But there was no sign in the markets yesterday that Mr Suharto's decision had boosted faith in Indonesia's ability to pay $140bn in debts and revive its economy.

Indonesian rupiah



Source: Datastream/ICV

Harmoko, Golkar's chairman, said yesterday: "Suharto accepts the responsibility and is willing to be nominated as president." Following a meeting with the president, the chief of the armed forces and the minister of interior affairs, he quoted Mr Suharto as saying: "The majority of the people want me to continue for the next five years."

Mr Suharto, 76, had been widely expected to seek a seventh term, but the sharp downturn in the Indonesian economy has sparked protests against his rule and calls by prominent opposition leaders for his resignation.

Observer, Page 17

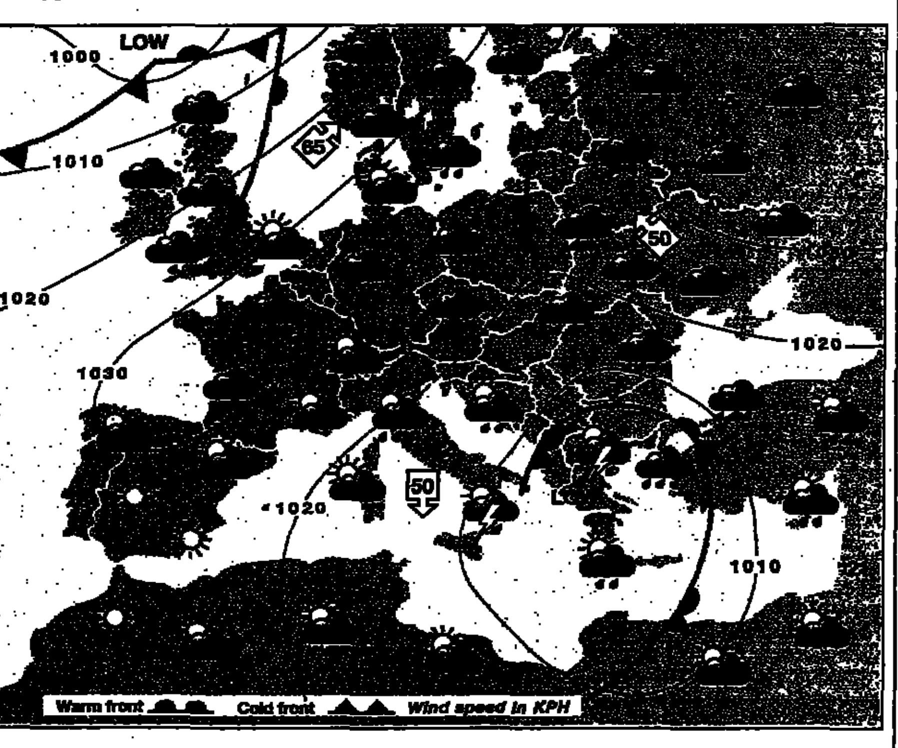
FT WEATHER GUIDE

Europe today

Much of Scandinavia will start dry and very cold, but snow will move into Norway and southern Finland later. The Balkan states and eastern Europe will have snow, but the south-east will have some heavy rain. The eastern Mediterranean will be showery with some heavy downpours and scattered thunderstorms. The central Mediterranean will have some thundery showers in between spells of sunshine, but the west will have plenty of sunshine. The north-west will become cloudier, with the threat of rain, but most of France will stay fine.

Five-day forecast

North-eastern Europe will stay cold with more snow, and the south-east will also become colder with wintry showers. The south-east and the eastern Mediterranean will stay unsettled with further heavy showers. The central Mediterranean will have some scattered showers while western Europe will become bright and chilly after some rain.



Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

	Maximum	Beijing	Sun -1	Cardiff	Rain 8	Frankfurt	Sleet 2	Madrid	Fair 14	Rangoon	Fair 30
	Celsius	Belfast	Rain 10	Casablanca	Fair 19	Geneva	Snow 2	Majorca	Fair 14	Reykjavik	Snow 2
Abu Dhabi	Sun 22	Belgrade	Rain 5	Chicago	Sleet -1	Gibraltar	Fair 18	Malta	Thunder 14	Rio	Fair 27
Accra	Sun 32	Berlin	Sleet 2	Cologne	Fair 3	Glasgow	Rain 10	Manchester	Rain 8	Rome	Shower 12
Algiers	Shower 16	Bermuda	Shower 19	Dakar	Fair 26	Hamburg	Fair 2	Manila	Fair 29	S. Frsco	Rain 12
Amsterdam	Sun 3	Bogota	Cloudy 21	Dallas	Fair 14	Helsinki	Snow -3	Melbourne	Fair 28	Seoul	Fair -2
Athens	Shower 15	Bombay	Sun 29	Delhi	Sun 20	Hong Kong	Cloudy 15	Mexico City	Fair 20	Singapore	Thunder 32
Atlanta	Cloudy 12	Brussels	Sun 4	Dubai	Fair 22	Honolulu	Fair 28	Miami	Cloudy 26	Stockholm	Fair -1
B. Aires	Thunder 25	Budapest	Shower 8	Dublin	Rain 10	Istanbul	Shower 14	Milan	Fair 11	Strasbourg	Fair 3
B.ham	Cloudy 6	C.hagen	Fair 0	Dubrovnik	Shower 12	Jakarta	Thunder 31	Montreal	Cloudy -2	Sydney	Shower 26
Bangkok	Fair 34	Cairo	Sun 23	Edinburgh	Rain 9	Jersey	Drzzl 9	Moscow	Cloudy -5	Tangier	Fair 19
Barcelona	Sun 15	Caracas	Fair 29	Faro	Sun 19	Johannesburg	Shower 25	Munich	Snow -2	Tel Aviv	Fair 21
						Karachi	Sun 27	Nairobi	Fair 25	Tokyo	Cloudy 9
						Kuwait	Sun 20	Naples	Shower 12	Toronto	Cloudy -1
						L. Angeles	Sun 17	Nassau	Shower 26	Vancouver	Rain 7
						Las Palmas	Fair 23	New York	Cloudy 5	Venice	Fair 9
						Lima	Cloudy 30	Nice	Sun 15	Vienna	Rain 5
						Lisbon	Sun 18	Nicosia	Shower 18	Warsaw	Sleet 2
						London	Cloudy 6	Oslo	Fair -6	Washington	Fair 7
						Lux.bourg	Fair 0	Paris	Fair 5	Wellington	Shower 18
						Lyon	Fair 3	Perth	Fair 27	Winnipeg	Cloudy-11
						Madeira	Cloudy 19	Prague	Snow 1	Zurich	Snow 0

FINANCIAL TIMES
COMPANIES & MARKETS

Wednesday January 21 1998

Week 4

INSIDE

Competition cuts aircraft prices

Competition among aerospace producers has cut aircraft prices by a fifth over the past two years, Daimler-Benz Aerospace (Dasa) of Germany said. Producers are sacrificing profits as they battle for a share in world markets. Dasa blamed Boeing, the US manufacturer, as the chief culprit. Manfred Bischoff (above), Dasa chief executive, said: "The prices are dictated by Boeing. We are followers in this case." Page 21

Lucent results exceed expectations
Lucent Technologies, the US communications equipment supplier unshackled from the AT&T group in 1996, surged past Wall Street expectations when it announced its quarterly results. Earnings, excluding one-time charges, were equivalent to $1.72 a share, exceeding the $1.52 consensus estimate of analysts. Page 20

Russia's problems to restrain growth
The Russian stock market has fallen by about 20 per cent since the beginning of the year. The government's problems with its public finances, its difficulties in enacting a fair tax code, and a weak domestic banking sector will all restrain economic growth in Russia this year. Page 38

India forced to raise cotton imports
A shortage of domestic supplies of cotton is forcing India to increase imports. This season's cotton crop is smaller than expected because of the late arrival of the monsoon. Page 28

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Chief price changes yesterday

FRANKFURT (DM)				**PARIS (FFr)**			
Rises				**Rises**			
Beta Sys	180	+	8	Arbel	53.8	+	5.8
Marschollk Ltn	530	+	30	Into Realite	246.4	+	22.9
Merck	61.5	+	2.5	Immob Hotel	35.25	+	3.25
Falls				**Falls**			
Bilcka-Dürr	205	–	17	Gabo Inds	627	–	53
Mars. Kinlos	26.2	–	1.8	Paluel-Mrmnt	446.2	–	73.8
Schmalbac Rd	250	–	41	Sole	190	–	10
NEW YORK ($)				**TOKYO (Yen)**			
Rises				**Rises**			
Amer Home Prds	91¼	+	10⅞	Daido Steel	198	+	27
Ciber	57⅛	+	3⅜	Kanematsu	169	+	44
St Paul Cos	84½	+	6¾	Matsumatsu Cos	470	+	55
Falls				Okamura-Gumi	480	+	41
Ameren	37⅝	–	3⅛	**Falls**			
Apria Hlthcre	9¼	–	2⅛	Daiwa House	798	–	39
Patient-Hmm	42⅞	–	5⅜	Hoya Corp	3780	–	280
LONDON (Pence)				**HONG KONG (HK$)**			
Rises				**Rises**			
Jarvis	408	+	25½	Citic Pacific	25.45	+	1.0
PowerGen	873	+	24	Hang Seng Bk	65.5	+	1.25
Zeneca	2357	+	80	Hutch Whamp	46.0	+	1.9
Falls				**Falls**			
Argos	400	–	26	HSBC Hld (5)	168.5	–	4.0
Proteus	76	–	7	Henderson Lnd	29.45	–	1.75
Weir Grp	228	–	21	Hasco	14.1	–	0.9
TORONTO (C$)				**BANGKOK (Baht)**			
Rises				**Rises**			
Can Bianca Re	8.90	+	1.50	Hantex Co	9.1	+	2.1
Rigel Engy	13.00	+	1.60	Machachal Hep	13.0	+	3.0
Ryan Engy	9.70	+	0.95	Thai Agri Fds	17.25	+	1.75
Falls				**Falls**			
Ashton Mining	5.05	–	0.58	Chai Watana	8.6	–	3.65
Datamirror	12.50	–	1.00	Nippon Pack	8.2	–	3.45
Inverpower Cnt	3.25	–	0.60	Struggpack	60.0	–	20.0

New York and Toronto prices at 12.30pm.

Hongkong Telecom gives up monopoly

Company's compensation deal includes $866m in cash

By John Ridding in Hong Kong and Alan Cane in London

Hongkong Telecom, the territory's dominant telecoms operator, has agreed to surrender its monopoly on international services six years earlier than expected in exchange for a compensation package, including HK$6.7bn ($866m) in cash.

Yesterday's agreement means the territory's international services market will be open to competition from the beginning of next year, with the liberalisation of telecoms infrastructure scheduled for 2000.

"The net result will be the end of all monopolies from 2000," said Alex Arena, special adviser to the government on information infrastructure. "That should allow Hong Kong to reclaim its position as the pre-eminent telecoms hub in the region."

Cable and Wireless, the UK-based operator which holds a 54.2 per cent stake in Hongkong Telecom and which derives about 65 per cent of its profits from the operator, said yesterday that it was a "fair and balanced" outcome.

It removed uncertainty over the future of international services in the territory and Hongkong Telecom would no longer have to pay royalties averaging HK$500m a year to the government.

Stephen Ip, secretary for economic services, said the early end of the monopoly, which initially had been due to last until 2006, would bring savings of HK$17bn to consumers and would also boost jobs and investment. "This liberalisation, coming at a time of economic uncertainty in the region, will give Hong Kong a significant economic stimulus," he said.

Linus Cheung, Hongkong Telecom's chief executive, said the agreement provided fair compensation for a valuable asset. "With a more certain regulatory environment, Hongkong Telecom can focus on developing its existing services, growing its mobile businesses and advancing the delivery of new integrated products," he said.

The end to uncertainty over the group, the last British-controlled monopoly in Hong Kong, pushed shares in Hongkong Telecom up by almost 3 per cent to HK$15.55. Cable and Wireless, its UK parent, saw shares rise 7½p to 508½p.

Under the liberalisation proposals, the large conglomerates which operate local services in Hong Kong will be invited to apply for licences for international services. The three groups – Li Ka-shing's Hutchison Telecommunications, New T&T, and New World Telephone – will be able to start international voice services from next year and build infrastructure from 2000.

Mr Arena said the issue of further licences would be determined by a review of local licences in the middle of this year.

In addition to a cash payment, which will be made in two tranches by July 1, Hongkong Telecom will be able to raise charges for local residential lines. However, these charges will be capped and Hongkong Telecom will be required to have at least 50 per cent of its local lines before the first permitted increase in 1999. Local telephone calls will continue to be free of charge.

Mr Arena said compensation of HK$6.7bn was reasonable given annual profits of about HK$3.75bn from Hongkong Telecom's international franchise and that that benefits to consumers and business would far outweigh the costs.

Government estimates predicted the cost of a direct outgoing call to the US would fall from almost HK$7 per minute to little more than HK$1 by 2006-7 using international simple resale services, in which international operators lease local lines.

Lex, Page 18; HK telecoms join the modern era, Page 22

Merger fever returns to the drugs industry

But latest talks unlikely to trigger a new round of deals

Like horror movie monsters that won't stay down, multibillion-dollar mergers are back in the frame for the global drugs industry. SmithKline Beecham and American Home Products are the protagonists whose possible merger would create the world's biggest drugs company. They are veterans: three and a half years ago both were in at the start of the last wave of deal-making.

It was the summer of 1994. SmithKline wanted to swap its agrochemicals business for the consumer medicines side of a company called American Cyanamid. The story leaked, and AHP stepped in with a hostile $10bn bid for Cyanamid that won control of the company.

The deal was driven by fears that healthcare reform plans proposed by the Clinton administration would cut drug profits.

Other countries, notably Germany, had already taken effective measures to cut the nation's medicines bill and stop drug sales growth.

Drugs company chief executives turned to mergers and acquisitions as a way to keep up profits growth while sales slowed. Within two years, there followed Glaxo's hostile takeover of Wellcome, SmithKline's acquisition of Kodak's Sterling Health and a host of other deals culminating in the friendly merger of Swiss rivals Ciba and Sandoz to form Novartis two years ago.

But then the deal-making all but stopped. The Clinton reforms were abandoned, and most other countries did not go as far as Germany in their cost-control measures.

The drug companies themselves found growth through new drugs in areas such as depression, schizophrenia and immunology.

Several factors have combined to make SmithKline and AHP reconsider.

● Strong recent growth. Even though investors have continued to buy drug company shares in the hunt for a haven from the upheaval in Asia, recent growth rates of 15 per cent in sales and profits will be difficult to sustain.

● Leadership succession. Jack Stafford, the 60-year-old chief executive of American Home Products has been seriously ill and may be more prepared to take a back seat after being instrumental in creating the world's biggest drugs company. His heir apparent, Fred Hassan, left the company last year to run Pharmacia & Upjohn, another US drugs company. Question marks about the succession at Ciba and Sandoz tempted those two companies to start the talks that led to their merger.

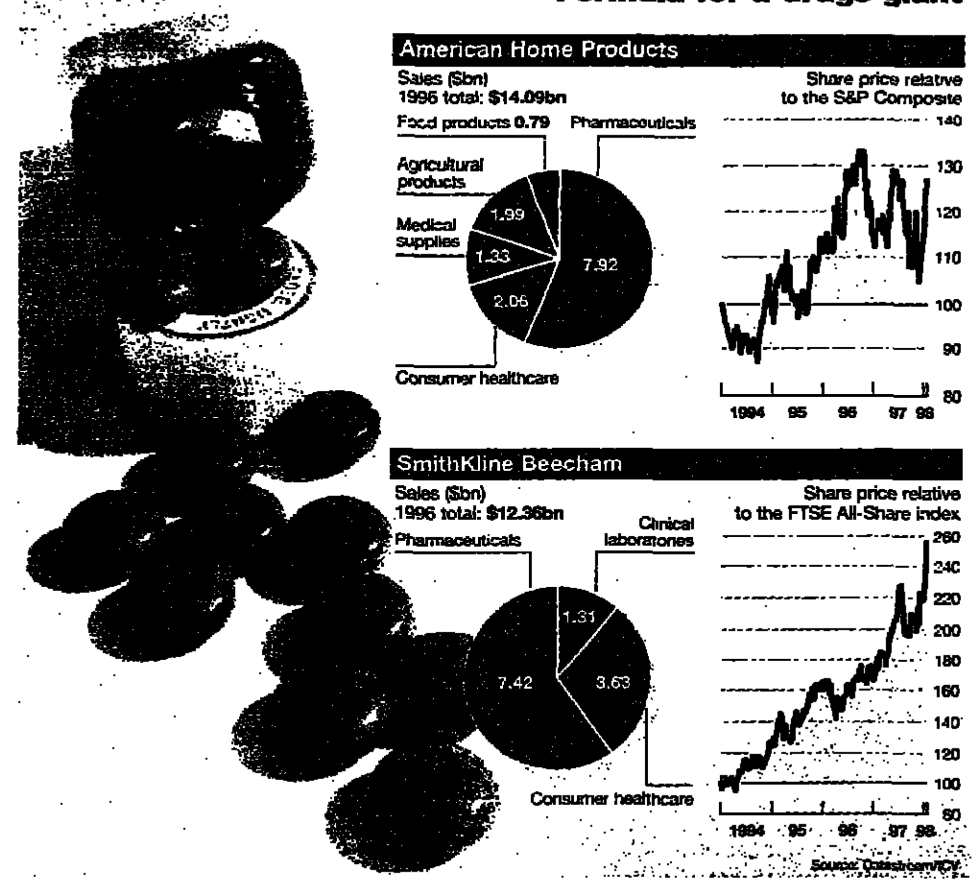
● Culture and geography. Although SmithKline has its headquarters in the UK its US centre is in Philadelphia where Wyeth Ayerst, AHP's drugs division, is also based. One reason the Ciba/Sandoz merger went well – and the US-Swedish Pharmacia and Upjohn merger did not – was physical proximity and cultural similarities.

● Complementary product lines. SmithKline is strong in antibiotics, vaccines and depression, while AHP is strong in hormone replacement therapy, oral contraceptives and painkillers.

● Complementary research and development. SmithKline has concentrated on genetics research and has thousands of potential avenues of investigation that could lead to new treatments. To affect the behaviour of genes, however, SmithKline needs large numbers of protein-based drugs to test. AHP owns Massachusetts-based proteins specialist Genetics Institute.

There would still be problems. Competition regulators have learned that a pharmaceuticals company with 5 per cent of the world market – such as Glaxo Wellcome or Novartis – may in reality dominate the treatment of an individual disease. Glaxo Wellcome, for example, was forced by regulators to sell an antivirus drug before its could complete the merger.

Formula for a drugs giant



SmithKline/AHP faces potential difficulties here. In headache pills, for example, SmithKline owns Panadol and AHP Advil. In R&D, both companies have drugs to treat anxiety and cancer.

The combined group's prospects could be clouded by potential liabilities arising from compensation claims linked to AHP's slimming drug Redux. Redux was launched in 1996 and abruptly taken off the market in September 1997.

Perhaps most importantly, SmithKline is growing much more quickly than AHP. James Capel, the stockbroker, forecasts that AHP's sales will grow at 4 per cent a year; while during the same period SmithKline's sales will rise by 9 per cent annually.

For these reasons SmithKline's shareholders may take some persuading to accept a merger. Whatever the outcome, pharmaceuticals companies could rethink their attitude about the speed of industry consolidation. But even if the deal does go ahead it looks unlikely that it will trigger a new round of deals. Addressing the complexity of personnel and research issues will take time.

Achieving a balance which will satisfy shareholders, employees and regulators will not be easy for Smith Kline, AHP or any other drugs company which follows in their footsteps.

Daniel Green

JP Morgan designates some Asian loans 'non-performing'

By John Authers in New York

J.P. Morgan, the US international bank, yesterday announced it was designating more than 10 per cent of its loan exposure to South Korea, Malaysia and Thailand as "non-performing", as the largest US banks revealed they had been severely hit by the Asian market turmoil of the past three months.

Citicorp and Chase Manhattan, which have extensive exposure to the Asian region, also reported that their results had been severely affected by the financial crisis, with Citicorp estimating that it had knocked $250m off its profits in the fourth quarter. But neither designated any loans as non-performing.

The move by J.P. Morgan was interpreted by observers as primarily a political statement. Analysts regarded the bank's results as deeply disappointing, with net income down 35 per cent on the equivalent quarter of 1996 at $271m. Revenues dropped from $1.805bn to $1.68bn, while expenses increased from $1.19bn to $1.3bn.

Morgan said at the end of last month it had $5.4bn in outstanding commitments to Indonesia, South Korea and Thailand. This includes $900m to Indonesia, $3.4bn to South Korea and $1.1bn to Thailand. These three countries account for 60 per cent of its $1.08bn allowance for credit losses.

Morgan also increased non-performing assets from $84m to $659m. These are loans on which interest is not being collected. However, they have not been written off and do not affect fourth-quarter profits.

Tom Hanley, banking analyst at UBS Securities, said: "I think this could very well be a political statement on the part of J.P. Morgan, as the increase in non-performing assets doesn't square with loan loss provisions of zero."

US banks meet Korean officials for further negotiations on debt restructuring today, amid growing criticism that the banks are attempting to profit from Korea's problems.

John Reed, Citicorp's chief executive, estimated that the Asian situation had reduced the bank's profits by about $250m during the quarter.

While $100m resulted from exchange rate fluctuations, a further $90m came from trading losses and $60m from smaller interest rate spreads in Asia. Citicorp stressed that the trading losses due to the Asian situation were impossible to fix with precision.

First derivatives deal in euros announced by French banks

By Samer Iskandar in London

Two French banks yesterday announced the first derivatives contract denominated in euros, the single European currency due to be introduced in January 1999.

The transaction, which highlights the growing confidence of French banks that European economic and monetary union is going ahead on time, surprised analysts.

"Nobody was expecting this until May, at least, when the composition of the euro is known," said one. This is when the list of countries taking part in the single currency is due to be published.

Although some futures exchanges have recently made arrangements to settle contracts in euros eventually, these are still based on existing currencies.

However, yesterday's deal, an eight-year interest rate swap between Crédit Local de France-Dexia, which finances local authorities, and Société Générale, the commercial bank, breaks new ground. When it takes effect next year, Crédit Local will receive interest payments, at a rate fixed for eight years, on an underlying sum of 100m euros. In return, it will pay SocGen a floating rate linked to Euribor, an average of lending rates quoted by 60 European banks.

The International Swaps and Derivatives Association, which represents banks and brokers, said: "We are pleased that preparations for Emu are advanced enough that such deals have become possible."

However, analysts said that with such a binding contract, the possibility of a delay in Emu, and the fact that details of how Euribor will be calculated have not been finalised, presented an element of risk.

COMPANIES AND FINANCE: THE AMERICAS

Lucent outshines Wall Street forecasts

By Nicholas Denton in San Francisco

Lucent Technologies, the US communications equipment supplier unshackled from the AT&T group in 1996, surged past Wall Street expectations when it announced its quarterly results yesterday.

Earnings, excluding one-time charges, were equivalent to $1.72 a share, far exceeding the $1.52 consensus estimate of analysts polled by First Call.

Lucent shares, which have tripled since the maker of switches and other telecommunications equipment was spun off from AT&T and taken public in April 1996, jumped more than 6 per cent in morning trading on the New York Stock Exchange. The shares, which traded up $4⅝ at 80\frac{1}{16}$, valued the company at $50.8bn, about *half the market capitalisation of* the remaining AT&T, the largest US long-distance carrier.

Since it became independent, Lucent has won more business from carriers other than AT&T. As the largest US telecoms equipment company, it has also benefited from the growing readiness of large telecoms operators to concentrate their orders among a few suppliers.

While medium-sized equipment makers such as ADC have blamed sluggish demand for disappointing results, Lucent reported that *operators were gearing up for heightened competition* as 1996 deregulation law takes effect.

"More and more, service providers who are facing liberalised and deregulated markets are investing in technology to improve their competitiveness," said Richard McGinn, president and chief executive of Lucent, who was also named chairman yesterday.

In addition, Lucent's sales to the competitive local exchange carriers, the small companies which are challenging the regional Bell companies, doubled quarter-on-quarter, although the precise amount was not disclosed.

Lucent's growing market share in the US translated into a 31 per cent increase in net income, to $1.12bn in the quarter, excluding one-time charges to do with the company's acquisition of Livingston Enterprises and other deals.

Revenues in the quarter, the first of Lucent's financial year, increased to $9.72bn from $7.93bn a year ago. They were boosted by sales of both switching equipment and wireless systems, in which Lucent had lagged behind competitors such as Ericsson of Sweden.

Lucent, which as a former AT&T subsidiary is among the most US-centred of telecoms equipment suppliers, experienced no slowdown in Asia, where its market share is small but growing.

US banks post strong final quarter

By John Authers in New York

US commercial banks continued to report strong performances in the fourth quarter of last year, even though the Asian crisis sharply dented profits at the largest international banks.

Bad credit-card debts – a serious problem for the industry in the past two years – appeared to have reached a plateau, while both retail and corporate banking turned in strong results.

Mixed bag

Bank results (fourth quarter ended 31/12/97)

	Net income ($m) 1997	1996	% change	Earnings per share ($) 1997	1996	% change
Banc One	474.8	370.0	+28.0	[illegible]	[illegible]	[illegible]
Chase Manhattan	874.0	836.0	+4.5	1.94	1.74	+11.5
Citicorp	1,061.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
JP Morgan	271.0	419.0	-35.0	1.33	2.04	-34.0
Wells Fargo	298.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Source: company reports

Chase Manhattan, the largest US bank by assets, saw operating earnings for the quarter drop 6 per cent from the same quarter of 1996 to $850m. This was *mostly due to trading losses* caused by the Asian currency crisis. Its domestic US businesses stayed strong.

Chase's total fees for loan syndication rose 20 per cent to $1.14bn for the year. The year-on-year increase for the fourth quarter was 68 per cent. Income from mortgage banking stood at $180m, up 70 per cent on the previous year.

Net charge-offs from its *$29.3bn credit-card portfolio* came to 5.45 per cent, ahead of the 5.11 per cent recorded in the final quarter of 1996 but a decline from the third quarter.

Citicorp, the second largest bank, reported net income of $1.1bn for the quarter, up 7 per cent year on year. It was also affected by Asian developments, which it estimated cut profits by $250m.

Net income from credit cards worldwide was $209m, down $75m from the 1996 quarter. Emerging markets accounted for $48m of this decline, while the US accounted for the bulk of the remainder.

Citicorp is the largest US credit-card issuer, but reduced its total number of cards during the year by 2 per cent, as part of a campaign to improve the quality of its portfolio. Total charge-offs were 5.64 per cent of the portfolio, up slightly from 5.58 per cent in the previous quarter.

These developments were balanced by a strong performance in commercial banking, both in Asia and in the US. The bank continued to invest aggressively in emerging markets, as part of its strategy of building up market share. Operating expenses in emerging markets reached $535m, up 21 per cent after the effect of currency fluctuations.

Ohio-based Banc One pleased the market with results showing continued low expenses following its acquisition of First USA, a specialist credit-card issuing bank early last year. Net *profits increased 28 per cent* from $370m a year earlier to $474.8m. It said credit card charge-offs had been reduced. By mid-session its shares were up $⅝ at 54\frac{1}{16}$.

Wells Fargo, which has been unpopular with investors for the past year after its disappointing progress in integrating its 1996 acquisition of Los Angeles-based First Interstate, reported net income of $298m for the quarter, more than *double* the $123m it recorded in the same quarter of 1996.

However, analysts were disappointed by the bank's efforts in reducing expenses. Total non-interest expenses for the quarter were $1.09bn, down 26 per cent on the $1.48bn recorded a year earlier. But expenses for the year, at $4.54bn, were only marginally below 1996's $4.63bn. The bank's shares gained $2½ at 324\frac{1}{16}$.

Lex, Page 18

Barrick stake sold for $520m

By Scott Morrison in Toronto

TrizecHahn, the Canadian real estate group, said yesterday it was selling almost *half its stake in Barrick, the* gold producer, in a bought deal worth an estimated US$520m.

Sources involved in the deal said the Barrick shares were snapped up by investors who believed bullion prices had hit bottom and were recovering.

TrizecHahn, the real estate arm of gold baron Peter Munk, who also controls Barrick, previously said it would sell its Barrick stake and use the proceeds for further real estate acquisitions.

TrizecHahn, which owned a total 15.7 per cent stake, said the sale would not affect its remaining Barrick shares, which are pledged *as collateral under the* terms of the real estate company's exchangeable debentures.

Ross Brennan, TrizecHahn vice-president for investor relations, said the company decided to divest its Barrick holdings in order to replen*ish cash flow following its* acquisition last week of Bell Canada's commercial properties for an estimated C$750m (US$522m).

The company has acquired US$2.1bn worth of North American retail and office property since January 1997.

Investment firms ahead despite Asia

By William Lewis in New York

Merrill Lynch, the US investment bank, warned yesterday the Asian markets could cause difficulties for the investment banking industry in 1998.

Reporting fourth-quarter earnings for 1997 in line with analysts' expectations, David Komansky, chairman and chief executive, said "the recent events in Asia, and unsettled conditions in US markets, could indicate a more *challenging* environment for our industry in 1998".

However he said Merrill intended "to pursue the strategic opportunities for profitable growth that can be available even in difficult markets". Last year Merrill bought *Mercury Asset Man*agement, the UK's leading fund management group, for $5.2bn. The deal took its assets under management to $446bn at the year end, up from $212bn at the end of 1996.

Earnings per common *share were $1.37 basic and* $1.17 diluted, compared with $1.32 basic and $1.14 diluted in the fourth quarter of 1996 and $1.46 basic and $1.25 diluted in the third quarter of 1997.

Merrill said its principal transaction revenues were *adversely affected by market* declines in Asia and other emerging markets and fell by 19 per cent from a year ago to $603m. However it said trading declines were partially offset by increased revenues in equity derivatives, foreign exchange and *commodities* trading. In early trading Merrill's shares fell more than 5 per cent to $63¾.

Donaldson Lufkin & Jenrette, the US investment bank majority-owned by Axa-UAP, the French insurance group, reported net *earnings per share of $1.53* fully diluted for the fourth quarter of 1997, marginally above analysts' expectations. This compares with $1.16 a share in the fourth quarter of 1996 and $1.85 in the third quarter of 1997. DLJ's share price increased $$\frac{7}{16}$ to 68\frac{7}{16}$.

*DLJ is to set up an equi*ties research, sales and trading operation in London. It is also expanding its mergers and acquisitions team in Europe, high-yield and private equity operations, and opening offices in Paris, Moscow and Frankfurt.

*PaineWebber, the securi*ties house, reported fully diluted earnings per share of 68 cents for the fourth quarter of 1997 compared with 57 cents in the same period a year ago and 70 cents in the third quarter of 1997. In early trading PaineWebber's *share price rose $¾ to $31.*

Stronger dollar cuts into sales at drugs groups

By Richard Waters in New York

The rise of the US dollar wiped more than 10 per cent from the international sales of both Johnson & Johnson and Pfizer in the final quarter *of last year, according* to figures published yesterday by the two US healthcare groups.

Pfizer, one of the most consistently successful of the big pharmaceuticals companies, added that the dollar was likely to weigh heavily *on its performance again* this year. Sales for the year would be 3 per cent below 1997 if the dollar remained at its present level, the company said.

In spite of the effects of the currency movements, both notched up double-digit gains in earnings per share in the latest quarter on the back of successful new products.

Both companies were helped *in* part by lower effective tax rates, which gave a lift to earnings. However, both also reported higher spending on research and development to boost their pipeline of future drugs. At Pfizer, R&D spending for the year rose 14 per cent to $1.9bn, while at Johnson & Johnson it increased 12 per cent to $2.1bn.

At Johnson & Johnson, sales during the final quarter were $5.6bn, a rise of 2.3 per cent. This represented a slowdown from earlier quarters and left the company with annual sales of $22.6bn, up 4.7 per cent during the year. Pharmaceuticals were again the engine behind the company's growth during the quarter, with a 5.5 per cent advance in sales after currency effects to $1.9bn.

At Pfizer, revenues rose to $3.5bn in the latest quarter and $12.5bn in the year, both increases of 11 per cent. Some $163m of sales in the latest period were generated by a new venture with other companies to sell Lipitor, a cholesterol-lowering drug, and Aricept, a treatment for Alzheimer's disease.

Johnson & Johnson lifted net income 7 per cent in the quarter, to $630m, or 47 cents a share. *For the year*, earnings increased 14 per cent to $3.3bn, or $2.47 a share.

Pfizer's net income rose 11 per cent in the quarter to $558m, or 43 cents a share, and 15 per cent for the year as whole to $2.2bn, or $1.70 a share.

AMERICAS NEWS DIGEST

LGT receives multiple offers

More than one buyer is understood to have made an offer for the whole of LGT Asset Management, the fund management group with operations in both the US and Europe. The deadline for offers closed at 5pm New York time on Monday and Prince Philip of Lichtenstein and other royal family members who own LGT were considering the bids yesterday.

A decision on the fund manager, which has assets of about $55bn worldwide, could come as early as today, although advisers to the deal said that some offers could involve complicated provisos.

Offers are understood to have been made by US and European groups including American Express, Deutsche Bank, Credit Suisse and the Bank of Luxembourg.

Jane Martinson

■ MANUFACTURING

Eaton, TRW surprise Wall Street

Eaton Corporation, the controls and automotive component maker, and TRW, a diversified industrial manufacturing group, *yesterday announced better than expected* earnings for the final quarter of 1997. But they made some cautionary remarks about impact of upheaval in Asia.

Eaton made an after-tax profit of $129m in the final three months, up from $66m a year ago. This took after-tax profits for the full year to $410m, compared with $349m previously. Sales rose from $6.96bn to $7.56bn, while earnings per share were up from $4.91 to $6.45 (ahead of special items) – a couple of cents higher than *analysts' average projections.*

The company said it faced "robust conditions" in the industrial and commercial controls markets, and that it was "too early to determine the impact of the Asian economic crisis on our customers' demand for front-end processing equipment" on the speciality controls division.

TRW reported a 15 per cent increase in full-year profits from continuing operations at $499.4m, on a 10 per cent sales gain at $10.8bn. Earnings per share were $4.03, compared with $3.27 *(ahead of special charges). TRW said that* results had been good "in virtually every dimension", although profits in the fourth quarter from its automotive interests dipped slightly. This was partly blamed on weakness in the Asia-Pacific and Brazilian regions.

Nikki Tait, Chicago

■ ROCKWELL

Chairman 'confident' of advance

David Davis, chairman of Rockwell International, said yesterday that good economic conditions in the US and Europe had left the company confident that it would report higher sales and earnings this year, in spite of the uncertainties in Asia. His comments came as the California-based factory automation and aerospace equipment company topped Wall Street expectations with earnings per share of 74 cents before a one-off charge for the first quarter. The 6 per cent advance was due to a 6.3 per cent reduction in the number of shares outstanding, as the company continued to buy back its own stock.

Net income before the charge, which reflected a write-off of purchased research and development, was $152m on sales of $2bn, compared with $154m on sales of $1.9bn the year before. Including the charge, reported earnings fell to $89m. Rockwell recorded higher operating earnings in its automation and avionics businesses, which recorded a 15 per cent increase in profits between them, to $218m. This was offset by a 47 per cent fall in earnings from semiconductors, to $43m.

Richard Waters, New York

■ ENERGY

Enron advance fuels share rise

Shares in Enron climbed nearly 5 per cent yesterday morning as the Houston-based energy group beat most Wall Street forecasts with earnings of 53 cents a share in the final quarter, a 10 per cent rise on the same period a year before. Net income rose 29 per cent to $169m.

The stronger earnings came at the end of a year in which Enron had taken after-tax charges of $537m, moves which the company said would remove some of the uncertainty of contingent liabilities from its balance sheet and leave *it with a stronger platform from which to grow.* The charges reflected the settlement of a dispute over the J-block gas contract and depressed margins in the MTBE business. They were offset in part by a $66m after-tax gain from asset sales. Full-year net income fell from $584m, or $2.16 a share, to $103m, or 32 cents.

Richard Waters

■ HOTELS

Hilton hits revised forecast

Hilton Hotels, which at the end of last year saw its $9.8bn hostile bid for ITT hotel and casino group defeated, yesterday reported fourth-quarter earnings before non-recurring charges and an extraordinary loss of 25 cents per share.

In December, Hilton shocked Wall Street by announcing that it expected fourth-quarter earnings to be between 25 cents and 29 cents per share, well below analysts' expectations of 37 cents a share. In the same period the year before, Hilton achieved earnings per share of 24 cents.

Hilton said that the non-recurring items in the quarter resulted in a pre-tax charge of $119m, or 28 cents a share, on an after-tax basis. It included a write-off of expenses related to the company's failed attempt to acquire ITT.

William Lewis, New York

■ AIRLINES

Northwest sees further growth

Northwest Airlines said it saw more earnings growth in *1998 but it was scaling back operations in poor-performing* Pacific routes. The company reported fourth-quarter operating net profits per diluted share of $1.06, compared with 19 cents a year earlier and a First Call estimate of 94 cents. Northwest said it was comfortable with analysts' estimates that put the airline's 1998 earnings at $5.60 a share. First Call's consensus projection was $5.68.

Agencies, New York

Costs check Monsanto advance

By Nikki Tait in Chicago

Partly as a result of a sharp rise in new product-related expenditure and partly because of write-offs related to acquired R&D activities, Monsanto, the US pharma*ceuticals, biotechnology* and agriproducts group, yesterday reported after-tax profits from continuing operations of $294m, or 48 cents a share.

This compared with earnings in the previous year of $413m, or 69 cents a share. Sales on the continuing businesses rose from $6.3bn in 1996, to $7.5bn last year.

But the company said that if the costs of restructuring the group – it spun off its chemicals arm as a separate listed company last year – and the in-process R&D write-offs were excluded, net profits last year would have amounted to $749m, or $1.23 *a share. That* would have compared with $670m in 1996, after similar adjustments, or $1.12 a share.

These adjusted figures, moreover, are struck after the very large increase in "growth-related" spending, incurred as the company pushes for new products in both the genomics and pharmaceuticals fields.

Monsanto said that growth-related expenditures – which encompass both R&D and the marketing and technical services to support this – rose more than 60 per cent, from about $800m to $1.3bn.

On an earnings per share basis, that expenditure worked out at about $1.51 a share – overtaking the underlying $1.23 a share earned by the group.

Monsanto added that it expected this new product-related spending to rise further in 1998, although it declined to quantify the anticipated scale of this year's rise: "This investment is targeted for the rapid commercialisation of the more than 60 potential new products in our pipeline," said Robert Shapiro, chief executive.

The company cautioned, however, *that the Asian* economic downturn could have an impact in 1998. Sales *to* the region are less than 10 *per cent* of the total and the area accounts for a smaller proportion of profits.

Nevertheless, Monsanto said it was anticipating that the problems "would detract somewhat from earnings in 1998".

EUROPEAN NEWS DIGEST

Allianz issues DM2bn bond

Allianz, Germany's largest insurer, yesterday took a first step towards divesting its stake in Deutsche Bank in a DM2bn ($1.1bn) convertible bond issue. Proceeds from the bond, which is exchangeable into Deutsche Bank shares at a 25 per cent premium to yesterday's closing price, will go towards Allianz's planned acquisition of AGF, the French insurance group.

"This is part of our plan of divesting our non-core assets so we can focus purely on insurance," said Stephan Theissing, head of corporate finance at Allianz. The German insurer has a stake of between 5 and 10 per cent in Deutsche Bank. Yesterday's offering represents up to half of the Allianz stake in Deutsche Bank should investors convert the bond into shares.

Allianz also plans to raise DM5bn in a series of equity issues and about DM3bn in bond issues to help raise the DM9bn it needs to acquire 51 per cent of AGF. The five-year convertible bond will pay a coupon of 3 per cent. The issuer can call the bond after three years. Allianz said the transaction had no implications for its 10 per cent stake in Dresdner Bank.

Yesterday's deal is the mirror image of a DM866m convertible bond issued by Deutsche Bank last year which investors can convert into shares in Allianz. Deutsche Bank owns a 10 per cent stake in Allianz. The deal was lead managed by SBC Warburg and Dresdner Kleinwort Benson *Edward Luce*

■ INSURANCE

Mapfre in Caja Madrid deal

Mapfre, Spain's leading insurance group, has signed a strategic agreement with Caja Madrid, the Madrid-based savings bank, which will aid its expansion in Latin America where it is already the biggest foreign-owned insurer. The agreement, signed by Mapfre Mutualidad, a member-owned motor insurance specialist which controls Corporación Mapfre, the listed holding company, is the first domestic alliance between an insurer and a financial institution. Caja Madrid, the sixth-ranked financial group in Spain, lacked a strong insurance business to compete with those developed by rivals in association with non-Spanish insurance groups.

Caja Madrid will distribute Mapfre products in Spain and take small stakes in the insurer's Latin American subsidiaries. Mapfre will acquire 20 per cent of the saving bank's insurance arm. The agreement also allows Caja Madrid to acquire an initial 20 per cent of Banco Mapfre, a banking unit with 129 offices controlled by the insurance group, with an option to build up its equity to 51 per cent.

■ Bankinter, the largest of Spain's mid-sized banks, lifted 1997 net attributable profit 5.2 per cent to Pta18bn ($116m) – in line with forecasts. Earnings from fee commissions and trading operations, together with lowered provisioning, offset a 1.6 per cent drop to Pta36.5bn in net interest income.

A strong balance sheet saw a 31.3 per cent increase in its customer deposits and a 27.2 per cent rise in its loan portfolio, reflecting domestic economic growth and rising consumer confidence last year. Bankinter, one of the most highly capitalised banks in Spain, said bad debts represented 0.65 per cent of its total lending and that coverage of non-performing loans stood at 183.2 per cent. *Tom Burns, Madrid*

■ SWEDEN

Esselte pictures frame sale

Esselte, the Swedish office and labelling products group undergoing a strategic revamp, said yesterday it expected to sell its picture framing business by mid-year. Jan Kvarnström, chief executive, said seven companies had expressed interest in its US-based Nielsen & Bainbridges subsidiary.

Nielsen & Bainbridge had operating profits of SKr159m ($19.7m) last year on sales of SKr1.4bn. Blackstone, the US investment institution, is advising on the sale. Esselte, which yesterday reported a drop in full-year pre-tax profits from SKr429m to SKr222m, recently split its operations into three companies, citing a lack of synergies. The group said it also planned to spin off its labelling products business.

Esselte said 1997 profits had been held back by a SKr252m rationalisation and restructuring charge. Mr Kvarnström, who took over at Esselte in September, has shaken up the group's office products division – its biggest unit – by scrapping its regional structure. Operating profits in office products declined from SKr482m to SKr242m on sales up from SKr7.6bn to SKr8.7bn. Excluding exceptionals, earnings were SKr406m. *Greg McIvor, Stockholm*

■ SBC/UBS MERGER

Latest job round favours SBC

Executives of SBC Warburg Dillon Read got the lion's share of the latest round of appointments at the combined investment banking subsidiary to be created by Swiss Bank Corporation's merger with Union Bank of Switzerland. SBC staff gained about three-quarters of the 80 jobs announced yesterday. Another 20 at the same managing director level have yet to be filled. The banks hope to complete the list by mid-February. The merger is expected to cost 6,000 investment banking jobs, more than half in London.

Appointments included Robert Gillespie (SBC) and Malcolm Le May (UBS), co-heads of European corporate finance; John Costas (UBS) and Stephen Oristaglio (SBC), co-heads of fixed income; Rory Tapner (SBC), head of equity capital markets; Alan Hodson (SBC), global head of equity distribution; and T.J. Lim (UBS), head of rate derivatives and structured products. *Clay Harris, Banking Correspondent*

■ AIRCRAFT

Snecma forecasts return to profit

Snecma, the French aircraft engine group, said yesterday it would report a net profit of "slightly more than" FFr600m ($81.3m) for 1997, compared with a loss of FFr280m a year earlier. Sales rose 23 per cent to FFr23bn.

Jean Paul Bechat, chairman, described 1997 as a "good year" in which the company exceeded its targets. He said 1998 sales should rise by more than 20 per cent to FFr28bn, and that the company expected earnings to rise. *AFX News, Paris*

■ CHEMICALS

Degussa, Hüls in merger talks

Merger talks between Degussa, the German chemicals, metals and healthcare company, and Hüls, the chemical subsidiary of Veba, will start next month, Uwe-Ernst Bufe, Degussa chairman, said yesterday. His comments follow Veba's acquisition last year of 36.4 per cent of Degussa.

Veba, an energy and industrial group, has made clear that it wants to combine the two operations. Mr Bufe said Degussa was "open" about a merger with Hüls. However, Veba had agreed that Degussa should remain a quoted company. "We are confident that a further strengthened Degussa will be created," he said. Degussa said pre-tax profits in the first quarter of this year jumped 26 per cent to DM145m ($78.9m), with sales up 15 per cent to DM4bn. Mr Bufe repeated the company's forecast that profits would rise this year, although he said this would depend on the financial crisis in Asia being contained. *Andrew Fisher, Frankfurt*

Aircraft prices down a fifth, says Dasa

By Graham Bowley in Munich

Fierce competition between aerospace producers has cut world aircraft prices by a fifth over the last two years, Daimler-Benz Aerospace of Germany said yesterday.

The admission, by one of the four partners in Europe's Airbus civil aircraft consortium, is the most precise estimate yet by a leading manufacturer of how cut-throat rivalry in the industry is eroding prices.

It is evidence that producers are sacrificing profits as they battle for a share in world markets. Dasa cited Boeing, the US manufacturer which is Airbus's arch-rival, as the chief culprit.

Manfred Bischoff, Dasa chief executive, said: "There is a crumbling of prices in certain markets. The prices are dictated by Boeing. We are followers in this case."

He also warned that the crisis in Asian economies would have a damaging effect on aircraft sales.

Mr Bischoff delivered the warnings as he revealed that the Munich-based company had achieved record orders and sales last year.

He said the strong dollar, an upswing in aircraft demand and cost-cutting measures had produced a result "beyond all expectations".

All Dasa's six business units – including satellite and defence interests as well as military and civil aircraft – had returned to profit. Sales rose 20 per cent to DM15.3bn ($8.3bn), and orders by 14 per cent to DM19.1bn.

Manfred Bischoff: 'The prices are dictated by Boeing. We are followers in this case' Reuters

But Mr Bischoff cautioned the decline in prices would hit profits and the company in 1998 would not repeat this year's strong performance, which he described as a "firework display".

"This fall in prices in all the major markets means that profits cannot be increased in line with revenues and in line with the recovery in the value of the dollar," Mr Bischoff said.

He conceded that Dasa had failed to meet the 12 per cent target for return on capital required by its parent, although he said it was expected to meet the target this year.

Mr Bischoff, who is due this year to become the chairman of the Airbus supervisory board, said Airbus was on course to become a limited company by the start of next year.

At present Airbus – owned by Dasa, Aerospatiale of France, British Aerospace and Casa of Spain – is a French legal entity that does not publish accounts or make profits or losses in its own right.

GM comments 'sour' Opel five-year job deal

By Andrew Fisher in Frankfurt

Adam Opel, the German subsidiary of General Motors of the US, yesterday announced a package of investments, job cuts and wage curbs to improve efficiency and hold down cost growth over the next five years.

But employee representatives said the 10-month negotiations had been soured by comments from GM executives on the need for job reductions of up to 30 per cent in Europe.

Opel's European works council had demanded an explanation, said Rudolf Müller, head of the German council.

Under the new job security agreement, Opel has promised there will be no compulsory redundancies up to the end of 2002. However, it said it expected a reduction of up to 4,000 jobs at its main Rüsselsheim plant near Frankfurt, which employs nearly 25,000.

This would be achieved by voluntary means, such as early retirement, non-replacement of workers who leave, and greater working flexibility.

Opel employs nearly 47,000, with a reduction of about 1,200 planned for 1998, mainly in Rüsselsheim.

The company has also pledged to invest at least DM750m ($408m) over four years to modernise the Rüsselsheim plant. Production will be held at 275,000 vehicles a year. A further DM450m is envisaged for a new engine plant at Kaiserslauten.

On the labour side, the agreement states that employees will forgo 1.25 percentage points of agreed annual wage increases, thus halving the 2.5 per cent rise agreed for this year.

David Herman, chairman, said the package would strengthen Opel's competitiveness. Fewer people were now needed to build cars as a result of new vehicle designs and advances in technology and productivity.

Mr Müller called the agreement a compromise with which all sides could live – "not a victory [for the works council], but also not a defeat".

He spoke in support of Mr Herman, now in the second year of a second five-year contract, in spite of widespread speculation that he will be replaced this year.

Toshiba cuts profit forecast to Y10bn

By Michiyo Nakamoto in Tokyo

Toshiba, one of Japan's leading electronics companies, warned yesterday that group pre-tax profits would plunge to Y10bn ($77.6m), compared with its previous forecast of Y95bn. It blamed poor sales of personal computers in the US coupled with weak demand for many of its mainline products in Japan and the sharp decline in semiconductor memory prices.

The latest forecast, which compares with consolidated pre-tax profits of Y125.5bn in the year to last March, highlights the severity of the downturn in the company's markets.

Toshiba's forecast was worse than most analysts had expected. "They don't match NEC in terms of semiconductor profitability, while consumer electronics is not their core business," said Scott Foster, industry analyst at ING Barings. He said the key to Toshiba's rebound depended on whether a recent rise in semiconductor prices was sustainable.

Group sales are expected to fall 2 per cent to Y5,350bn, compared with an earlier forecast of Y5,500bn and sales last year of Y5,453.4bn.

Net profits are expected to fall to Y10bn from an earlier forecast of Y60bn, against Y67.1bn last year.

Toshiba expects to make a loss in its PC business. It pointed to severe pressure in the US computer market, where its top-end desktop PCs had failed to make inroads, and a sharp fall in PC demand in Japan. Sales are forecast at Y700bn, against Y740bn last year.

Toshiba's desktop PCs, which have multimedia functions and a DVD-Rom drive, have struggled to compete with the low-cost PCs that have captured market share in the US. "Our high-end products did not match market needs," Toshiba said.

Toshiba denied it was pulling out of the home market for desktop PCs, but said it would concentrate more on the business market.

In the notebook market, the company has suffered from price declines triggered by falling prices of liquid crystal display panels and memory chips.

The sharp falls in semiconductor memory prices are also putting pressure on profits. Sales of semiconductors are expected to reach Y900bn, rather than the Y825bn forecast earlier. However, Toshiba expects to make a profit in semiconductors on the strength of its non-memory products.

Toshiba also faced a difficult environment in consumer electronics markets, particularly in Japan, where demand for large-ticket items has been hurt by a rise in the consumption tax. It expects an operating loss of Y30bn in the division, compared with a Y17bn loss last year.

HK telecoms joins the modern era

End of Hongkong Telecom's monopoly brings competition and new technology

The end of the United Kingdom's last significant monopoly in Hong Kong catapults the territory's telecommunications sector into the ranks of the developed world.

With the phased removal of the direct-dial international telecoms monopoly – now held by Hongkong Telecom, which is controlled by Cable and Wireless of the UK – Hong Kong is seeking to guarantee its position as Asia's leading telecoms hub and to run the industry in line with the worldwide trend of liberalisation.

This, analysts say, is good for most consumers as competition should translate into cheaper bills. It is also seen as good for Hong Kong, whose role in Asian telecoms will be enhanced by the reduced rates.

But there is less consensus on whether or not the deal is good for Hongkong Telecom, erstwhile monopoly and still the dominant operator in both the domestic and international markets.

On the positive side, Hongkong Telecom receives a compensation package valued at about US$1.1bn, including HK$6.7bn (US$866m) in cash; it has advance knowledge of how the deregulation of the industry will pan out; and it has certain pricing constraints lifted. It also has a nine-month grace period in which to restructure itself for the onslaught of competition.

At the same time, however, it sees a reduction in delivery fee payments and faces an unprecedented wave of competition in a core activity which generates an estimated 50 per cent return on investors' capital. "Competitors will flood the market," says Ni Q. Lai, regional telecoms analyst at Credit Suisse First Boston in Hong Kong.

Deregulation is rapid. The monopoly ends, in practice if not in name, from the beginning of next year, when international simple resale (ISR) of voice traffic is introduced. With ISR, an international operator can lease international circuits and resell capacity to end-users. It requires minimal equipment or capital expenditure.

The US experience shows ISR to be hugely popular; it is also ISR which has allowed Swiftcall to continue undercutting British Telecommunications, in spite of the latter's attempts to reduce its international charges.

According to Adam Quinton, regional telecoms analyst with Merrill Lynch in Singapore, this is because the economics are so appealing. "The explosion of US resale [currently most prevalent on the Mexico, Canada and UK routes] is just another manifestation of unleashing new forces to attack the high returns still available in the international telephony market," he says.

For Hongkong Telecom, the hit will come on revenues. The switch to ISR will mean it takes a smaller slice of revenues on calls generated by competitors.

ISR bypasses the accounting rate system – whereby carriers pay each other for completing international calls – which was a subject of dissent. The US Federal Communications Commission was proposing to slash the rate paid to Hong Kong and other Asian carriers; under the newly liberalised scenario, it will disappear altogether.

Nonetheless, Hongkong Telecom retains certain advantages. "It puts it on a more level playing field against the competition, and with its size Hongkong Telecom is well placed to exploit that," says David Gibbons, telecoms analyst at HSBC James Capel in Hong Kong.

He adds that Hongkong Telecom is better prepared for competition. Its market share of international traffic has been steadily eroded by callback operators, whose mechanism of routing the call via a computer which then bounces it back as an incoming (rather than outgoing) call exploits a loophole in the IDD monopoly.

Callback services are offered by the competing fixed-line operators as well as several smaller dedicated companies such as CTI. Mr Gibbons estimates that Hongkong Telecom's international market share is now about 70 to 75 per cent.

Moreover, the Hong Kong government had already liberalised ISR for fax and data, which make up about one-fifth of total traffic. "It is moving from partial competition to full competition, so the transition will be rather less marked," he says.

A bigger blow could be dealt to the three fixed-line competitors – Hutchison Telecom, Wharf New T&T, and New World Telephone. They are vulnerable to attack on both sides: from new competitors who are likely to be targeting the same customer base, and a more competitive Hongkong Telecom freed of several of its price controls.

Mr Quinton points to the UK example: Mercury suffered very badly when the market was first liberalised, while the dominant BT held off the pain for a few years.

"Since any price-sensitive customer has already migrated to a new service, a more attractive price could persuade these customers to hop again to other operators."

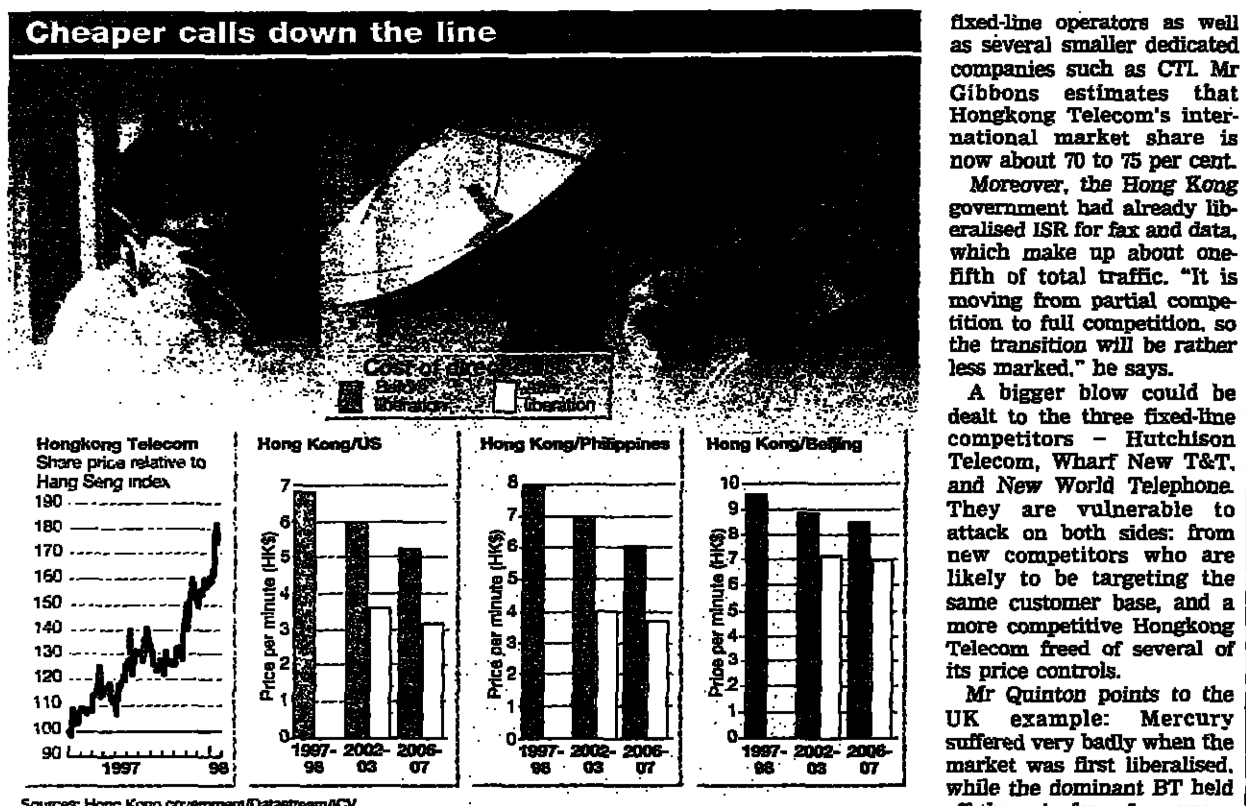
For Hongkong Telecom, the balance of compensation for lost opportunity is almost academic. The pace of liberalisation has been unrelenting in telecoms, and after Singapore agreed to open up Hong Kong had little alternative but to follow suit.

"Clearly, monopolies are going out of fashion like mink coats," says Mr Gibbons. "Cashing in the value of that business and redeploying it elsewhere is a good move."

Louise Lucas

Lex, Page 18

Cheaper calls down the line



Sources: Hong Kong government/Datastream/ICV

Kia looks at link-up with GM

By John Burton in Seoul

Kia Motors, the South Korean carmaker, is considering an alliance with General Motors of the US in manufacturing car components, Park Je-hyuk, president, said.

GM has offered to provide capital and technology to several of Kia's car component subsidiaries, including Kia Precision Works and Kia Heavy Industries.

Jack Smith, GM chairman, said last month that the US carmaker was studying the possibility of strengthening its car components business in Korea by taking stakes in local companies.

GM has a components joint venture with Daewoo, Korea's second largest carmaker, and apparently intends to become a key parts supplier for the Korean car industry following the recent bankruptcy of Mando Machinery, the biggest domestic supplier.

Kia, which was nationalised in October after going bankrupt, has said it has kept Ford Motor, its largest foreign shareholder, informed of its talks with GM.

Kia is also hoping to strengthen marketing ties with Ford, which holds a 16 per cent stake in Kia, through the overseas sales of Kia vehicles through Ford's distribution network.

Meanwhile, the trade and industry ministry said US and Japanese companies had expressed interest in acquiring Kia Steel, which supplies speciality steel products to the car industry.

Hyundai and Daewoo, Korea's two largest carmakers, have also offered to co-manage Kia Steel in an alliance with the parent Kia group.

ASIA-PACIFIC NEWS DIGEST

United Distillers in whisky switch

United Distillers, the spirits arm of the former Guinness group, is to pull out of marketing its Johnny Walker and Old Parr brands of whisky in Japan, as ripples from last year's merger of GrandMet and Guinness to form Diageo spread to Japan.

Handling of the brands will be transferred to Jardine Wines and Spirits, a joint venture in which United Distillers and Moët Hennessy, part-owned by Guinness, both have stakes, together with Jardine Matheson, the Hong Kong-based trading company. United Distillers will close its Japan subsidiary next month, with the loss of 170 jobs, but will ask Jardine Wines and Spirits to take on all its former employees.

The Johnny Walker brand has been suffering from decreasing prestige in Japan as whisky prices have tumbled over the past decade, and parallel imports have hit sales from official distributors.

But there are hopes that the whisky market could pick up this year as a result of a tax cut last October, forced through by the World Trade Organisation to bring Japan's duty on whisky closer to that levied on shochu, a locally produced strong spirit. Further reductions in the whisky tax are planned. *Bethan Hutton, Tokyo*

■ THAILAND

PTTEP reserves hit 99m barrels

PTT Exploration & Production, Thailand's only listed oil and gas producer, said yesterday that its total proven hydrocarbon reserves had risen to 99m barrels of oil equivalent (boe), up 20 per cent from the end of 1996. The company said probable and possible reserves were 689m boe, up 31 per cent.

The share price of PTTEP, a core holding of many foreign investors in the Thai stock market, rose 1.3 per cent to close at Bt466. The company's annual reserves announcement is considered crucial in determining the value of the company.

The Thai government, via the Petroleum Authority of Thailand, expects later this year to sell additional stakes of PTTEP either on the stock market or through a private placement as part of a privatisation programme agreed with the International Monetary Fund.

The company said the rise in proven reserves was mainly the result of new appraisals of wells north of the country's main offshore gas producing areas – Pailin and Moragot – and further reserves added when the company farmed-in on Burma's offshore Yetagun field. *Ted Bardacke, Bangkok*

■ TRAVEL

Japan Airlines cuts HK flights

Japan Airlines, the country's largest carrier, is to make sharp cuts in the number of flights between Japan and Hong Kong in response to steep falls in passenger numbers on the routes.

Tokyo-Hong Kong flights will be reduced from four to three a day from April, reducing total Japan-Hong Kong flights to 49 from 56 a week. Flights to the US and Europe will increase, with a new Nagoya-Los Angeles service three times a week.

Paul Smith, transport analyst at HSBC James Capel Securities in Tokyo, said that cuts in the Hong Kong services were not unexpected. Japanese tourism to Hong Kong has fallen off dramatically since the July 1997 handover to China. Other Asian destinations are attracting more business, and JAL plans to add more flights to mainland China, although these are not yet fixed.

JAL's flights to the US are set to increase by eight a week, but competition on the routes is likely to grow as a result of a US-Japan aviation accord, due to be agreed this week. *Bethan Hutton*

■ RETAILING

Woolworths wins Country Road

Woolworths Holdings, the South African retailer, said yesterday it had secured a controlling stake in Country Road, the Australian clothing retailer, two days before the deadline for shareholders to accept its A$138m (US$92m) takeover offer. The bid had been rejected earlier by many investors, with the share price trading up to $2.20 before closing at the offer price of $2 on Tuesday. In a hard-fought takeover attempt, Woolworths succeeded on Tuesday in raising its stake to 59 per cent, gaining a 20 per cent stake in 24 hours.

Leading shareholders, including Australian Retail Investments and Portfolio Partners, have opposed the bid and earlier tried to build a blocking stake, saying Woolworths' offer was too low. Syd Muller, Woolworths executive chairman, said yesterday that his company had been inundated with acceptances of the bid, which valued Country Road at $138.11m. "Shareholders have concluded that our offer is attractive and provides the opportunity to sell at a premium price ... this is despite all the negative posturing of some parties," he said. Woolworths has said it would move to delist Country Road if it acquired 50.1 per cent of the company. *Gwen Robinson, Sydney*

Mitsubishi Electric eyes phones

Mitsubishi Electric aims to become the first electronics company to enter Japan's international telephone market by leasing lines from KDD, the leading international carrier, **writes Michiyo Nakamoto in Tokyo.**

Mitsubishi said its 100 per cent-owned subsidiary Mitsubishi Electric Information Network (Mind) planned to enter the international simple resale business next month.

Mind expects to offer international call services at about half the rates charged by KDD by leasing lines from KDD and connecting them to the public network.

This would be the first time in Japan that a company which is not a telecoms carrier offered international telecoms services to the public, according to the Ministry of Posts and Telecommunications. Late last year, the MPT announced the deregulation of international simple resale.

Mind will target mainly the business market but will also make its services available to residential users. The company, which already provides telecoms facilities such as internet and intranet services, expects sales to rise strongly this year to Y27bn ($209m) from Y19.7bn.

The liberalisation of international simple resale is expected to inject greater competition into the Japanese market, where international rates remain high.

COMPANIES AND FINANCE: INTERNATIONAL

Wave of mergers sweeps Indonesia

By Sander Thoenes in Jakarta

Indonesia's banks and conglomerates announced a wave of merger and acquisition plans yesterday as part of their struggle to survive a looming debt crisis and liquidity squeeze.

Bank Danamon, the second largest listed bank which has denied rumours of impending collapse, said it was finalising talks on a merger with a number of small banks but would not disclose details, although some bankers involved said Lippo Bank could be one of its partners.

Dharmala and Putra Surya Perkasa, the finance and property groups, intend to merge their property subsidiaries which were badly exposed to short-term off-shore borrowing when the rupiah crashed.

Scotiabank of Canada plans to raise its stake in Bank Arya, a small retail bank, from 35 per cent to 49 per cent. LG Electronics of South Korea has bought out Astra Electronics, part of the Astra group, from a local joint venture.

The merger and acquisition plans are the first evidence that banks and companies are restructuring to stave off collapse. News of more mergers in the making attracted buyers for bank shares on the Jakarta Stock Exchange yesterday, pushing the index up 2 per cent.

Most of Indonesia's 225 banks and many conglomerates have been pushed to the brink of bankruptcy by a liquidity squeeze and a collapse of the rupiah. The exchange rate has dropped from Rp2,600 to the dollar in August to Rp10,575 yesterday, swelling off-shore debt and triggering fears among investors of massive defaults.

Private off-shore debts exceed $66bn, in addition to at least $15bn in commercial paper, and estimates of loans due this year range from $30bn to $60bn. Lenders have remained quiet on forced roll-overs on loans to many large conglomerates but some have mentioned Steady Safe, Sekar Bumi and Sierad Produce as defaulting on short-term debt.

Some banks have offered rupiah payments for dollar debt, indicating growing desperation.

The government has urged enterprises and banks to merge or attract foreign investors to raise cash. Company owners had been slow to respond until recently, hoping the rupiah would recover, but even last week's reform pledge to the International Monetary Fund failed to revive the currency.

On Monday, two of Indonesia's largest banks, Bank Internasional Indonesia and Bank Dagan Negara Indonesia, said that they intended to merge along with three small banks affiliated with BDNI. Bakrie group and Tirtamas group have also merged subsidiary banks.

BDNI, although only slightly smaller than BII, will lose its name in the merger, an indication of its weak position. BDNI is part of the Gajah Tunggal group which has been heavily hit by the rupiah depreciation, but Sinar Mas group, owner of BII, also faces large debt payments because of rapid expansion in its pulp and paper industries.

Both groups have declined to reveal financial data.

Gdynia takes Polish shipyard lead

By Christopher Bobinski in Warsaw

A worker at the troubled Gdansk shipyard: nearby Gdynia has made a bid for its assets Piotr Malecki

Gdynia shipyard, which showed a profit last year for the first time since 1990, is emerging as the sector leader in Poland after a long struggle to stay independent of Szczecin, its chief domestic rival.

Last year's $7m net profit on the sale of nine vessels worth $300m has bolstered morale among the yard's more than 7,000 employees and prompted Gdynia to make an ambitious bid for the assets of the nearby Gdansk yard, which is in liquidation.

At the same time, Szczecin, which has sought to take control of Gdynia, risks becoming isolated if its merger plan, backed by the European Bank for Reconstruction and Development, fails to come to fruition. Szczecin also reported a $7m net profit last year on sales of 22 vessels worth $570m.

Gdynia, which plans to build 12 vessels this year, expects $410m in sales revenue and about $10m in net profits. It is currently 34 per cent state-owned, while suppliers hold 12 per cent following a debt-for-equity deal.

Two Polish banks, Bank Handlowy and the PBKS, part of the Pekao SA group, hold a further 39.4 per cent and the workforce is entitled to 15 per cent. The yard's management and employees are negotiating to buy the banks' stake in a deal which should be completed by the end of next month.

According to Janusz Szlanta, chief executive of Gdynia, the return to profitability gives the yard a breathing space to consider its next move.

This could include the immediate sale of stock to a strategic investor or a Warsaw bourse listing, which could coincide with a partial trade sale.

The Gdynia bid for Gdansk is designed to give Mr Szlanta additional capacity to develop his yard, and the tender is expected to be decided by the liquidators by the end of April.

The Gdynia consortium includes Pekao SA bank and Nederpol, a local property developer. It also has the support of Marian Krzaklewski, the leader of Solidarity, which has collected funds to help save Gdansk, the union's birthplace.

National Mutual and Lend Lease detail link-up

By Gwen Robinson in Sydney

National Mutual Holdings and Lend Lease, two of Australia's largest insurance and funds management groups, yesterday announced details of a plan to merge their core operations in Australia and New Zealand, possibly by the end of March.

The new entity, National Mutual/MLC, would be one of the region's largest financial services groups, with a combined A$51bn (US$34bn) of funds under management.

The deal has been under discussion since last October, but its timing, following the previous day's announcement of a restructuring by AMP, Australia's largest insurance and fund management group, highlighted intensifying competition in the Australian financial services market.

Executives from National Mutual and Lend Lease said their proposed merger was partly a response to the globalisation of the financial services industry. "We cannot over-estimate the strategic importance of the proposed merger," said Dean Wills, chairman of National Mutual, who will be chairman of the new entity.

Lend Lease has extensive interests in property development and management, while National Mutual is a leading fund management and insurance company. By combining their businesses, they said they would achieve recurring cost savings of at least A$200m annually, which could add A$900m to shareholder value.

Under a non-binding preliminary agreement, the merged entity would be 51 per cent owned by National Mutual and 49 per cent by Lend Lease. National Mutual would pay Lend Lease A$130m as an adjustment fee for its larger equity stake, while Lend Lease would purchase National Mutual's property management operations for A$63m.

The group would form two joint ventures operating in both Australia and New Zealand, to be run as a single entity under National Mutual/MLC. The first would combine existing life assurance, pensions and related businesses, while the second would include the investment management operations of Lend Lease and National Mutual in both countries.

Both companies would have five representatives on the board of each joint venture and have equal voting rights for the first three years. National Mutual, however, would have the right to appoint the chairman. David Clarke, chief executive of MLC, would head the merged entity and for the first three years have voting rights as an 11th board member.

The deal excludes National Mutual's 69-per cent subsidiary National Mutual Asia, which has been expanding in south-east Asia.

Brierley sale hits Coles Myer stock

By Gwen Robinson

Shares in Coles Myer tumbled nearly 7 per cent yesterday on news that Brierley Investments, the New Zealand-based investor, had sold its entire 7 per cent stake in the Australian retailer for about A$585m.

Brierley took advantage on Monday of the recent surge in the troubled group's share price to record highs, realising a profit of $219m on the sale.

The deal, conducted late on Monday through Australian brokers JB Were & Son, involved at least 80m Coles Myers shares at $7.30 each, a discount of 64 cents to the market closing price of $7.94.

About 62m shares were widely distributed to local and overseas institutions after the market's close on Monday. Other investors yesterday appeared to be following Brierley's lead, as the stock fell 58 cents to finish at $7.41 on high turnover of 13.7m shares.

Analysts said Brierley's exit was not a negative factor for Coles Myer, as the retailer's earnings outlook was better than it had been for years. However, the market would take some time to absorb the stock.

Market observers suggested that Brierley, a large investor in Australian blue chips, would channel the proceeds into other investments, including a possible addition to its existing 22.9 per cent stake in Australian newspaper publisher, John Fairfax.

Don Conway, Brierley's Australian general manager, said the company was "very pleased" with its profit from the sale and had decided to sell because "it was time to move on to the next investment".

Brierley, which also owns Thistle Hotels group in the UK, bought the Coles Myers shares from late 1995 through 1996 for an average price of $4.50 each, paying a total of about $360m.

Brierley began amassing its stake in Coles Myer as investigators raised questions about the company's corporate governance standards and a complex set of share deals said to have cost the retailer A$18m.

Large institutional shareholders, including AMP Society and British Telecommunications, began reducing their stakes and finally left the share register after the main shareholder and deputy chairman, Solomon Lew, refused to leave the board.

Japanese bank hopes for about £200m for group after removal of bad loan provisions

Yokohama to sell Guinness Mahon

By Jane Martinson

Guinness Mahon, the London-based investment banking group, has been put up for sale by the Bank of Yokohama, a leading Japanese regional bank, after a decision to streamline its international operations.

The bank hopes to sell Guinness Mahon, which combines an investment banking business with a private banking operation and fund management division, as a whole. This should be made easier by the removal of bad loan provisions which have dogged Guinness Mahon in recent years.

The bank's ownership of Guinness Mahon has not been a particularly successful one as the problem loans, mainly taken on board in the 1980s, have led to losses for most of the 1990s.

The bank's initial investment of £65m in 1989 grew to almost £200m after a rights issue and other share purchases. The group now hopes the sale of Guinness Mahon, with profitmaking individual parts, will make nearly £200m ($326m). The initial investment was made as many financial institutions were expanding globally. The bank is understood to have decided to sell Guinness Mahon before the recent market turmoil in Asia.

It has also decided to reduce other international operations and "unnecessary" cross-shareholdings in other Japanese companies, in an attempt to position itself firmly in the domestic market before "big bang" in the country's financial services sector.

David Potter, Guinness Mahon chairman, said the group had already been approached by potential bidders. "Over the last couple of years we have had numerous approaches." This interest had increased recently.

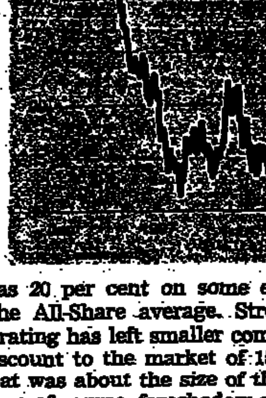
Using a rationale similar to that of Barclays when it announced the sale of BZW, its investment banking arm, Mr Potter said it was concerned about keeping bid talks confidential. Both sides would like to see a sale "sooner rather than later". An adviser to the deal said that he hoped the sale could be completed within the next two months.

Guinness Mahon, which owns the Henderson Crosthwaite stockbroker, employs some 572 people in the UK. It advises more than 75 publicly-quoted clients and completed £282m of mergers last year and £363m of equity capital raisings.

It owns 44 per cent of Guinness Flight Hambro asset management, which manages £9.3bn of institutional and retail assets.

LEX COMMENT

Small companies



Is the smaller companies effect dead? A recent analysis of the Hoare Govett Smaller Companies Index shows not only eight years of underperformance, but blames this on weak dividend and earnings growth rather than fickle market sentiment. For 1998, pessimism still abounds: small companies are seen as vulnerable to the strong pound and/or a slowdown in the UK economy. Ironically, 1997 was a good year for small companies' profits. Earnings per share growth for FTSE SmallCap constituents was as high as 20 per cent on some estimates, more than twice the All-Share average. Strong growth combined with a derating has left smaller companies on a price-earnings discount to the market of 15-20 per cent. Four years ago that was about the size of their premium. The low rating may, of course, foreshadow cuts in profit forecasts, but at least this means some disappointment is in the price.

Are small companies now cheap enough to attract buyers? Scepticism remains too high for a blanket rerating. But there are two areas of encouragement. First, some sectors in which SmallCaps are well represented have livened up – the new information technology sector is a prime example.

Second, a wave of bids for smaller companies, from both industry rivals and venture capital funds, mostly represent opportunistic moves on sound but undervalued targets. The investment equivalent of this is stock picking, and smaller companies are fertile territory for this approach.

Somerfield sales lag sector

By Peggy Hollinger

Somerfield, which has been the subject of recent bid speculation, surprised the market with stronger than expected interim profits but its marginal increase in sales growth continued to lag the food retailing industry.

Gross margins up by 1 percentage point helped Somerfield report a 12 per cent rise in underlying pre-tax profits to £56.9m ($92.7m).

Including exceptional gains, the pre-tax line rose from £54.6m to £60.9m for the 28 weeks to November 8, on sales ahead from £1.71bn to £1.73bn.

David Simons, chief executive, said it had turned in "another solid set of results showing an improved performance". Moreover, it had not yet exhausted its scope for further margin gains. "I am convinced we will see gross margins grow in this business for several years to come."

While admitting that the sales increase remained substantially lower than the industry's 3-4 per cent, Mr Simons said there had been an improvement in more recent trading and sales, excluding new space, had grown 0.6 per cent in the nine weeks to January 10.

Analysts said that although the growth in sales was disappointing, margin improvements would lead to better than expected full-year profits. Annual forecasts were raised by about £8m to some £115m.

Defending the sales performance, Mr Simons said trading in the core Somerfield stores had increased by 2.4 per cent on a like-for-like basis. This compared with a 2.8 per cent decline in the unconverted stores and a 5.8 per cent fall in the Food Giant discount chain.

Mr Simons refused to comment on the bid speculation which last week fuelled a 7 per cent rise in the shares.

It is understood the group has not had any initial approach from a prospective bidder. Somerfield shares, which have eased back from a peak of 251p, closed 4p up at 241½p.

Ashley Ashwood

David Simons sees scope for margin gains

Lex, Page 18

RESULTS

	Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Alexanders Holdings ... 6 mths to Sept 30	56.2	(60)	0.987L♠	(0.011)	2.46L	(0)	nil	-	-	-	0.1
Alliance Res $ ... 6 mths to Oct 31★	6.4	(6)	1.13L	(11.7L♠)	2.2L	(42.4L)	-	-	-	-	-
Barbour Index ... 6 mths to Oct 31	7.45	(7.25)	1.83	(1.9)	7.2	(7.5)	3.3	Apr 6	3.15	-	10
Bucknall ... 6 mths to Oct 31	20.2	(17.2)	0.51	(0.354)	1.9	(1.2)	0.33	Apr 6	0.25	-	1
Somerfield ... 28 wks to Nov 8	1,726	(1,714)	60.9♥	(54.6)	17.8	(14.9)	3.8	Apr 2	3.4	-	10.2
Ushers ... Yr to Oct 31	70.5	(65.4)	10.3♠	(11♠)	9.6	(9.4)	1.95	Mar 16	-	2.55	-

Investment Trusts	NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Abtrust High ... 3 mths to Dec 31	-	(-)	-	(-)	-	(-)	1.7	Feb 17	1.65	-	6.65
Danae ... 6 mths to Nov 30	88.57	(97.13)	0.234	(0.321)	3.11	(4.36)	3.375	Feb 27	3.375	-	8.25
Gilts Convertible ... Yr to Dec 31	-	(-)	-	(-)	-	(-)	4.5	Feb 27	4.5	9	9

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. $US currency; losses per share in pence. ★Comparatives restated. ♠After exceptional charge. ♥After exceptional credit.

Hercules moves to reassure on overpaying

By Andrew Edgecliffe-Johnson in London and William Hall in Zurich

Hercules of the US moved to reassure analysts yesterday that it would not overpay for Allied Colloids, the UK chemicals group, despite having raised its hostile bid twice in seven hours on Monday.

Ciba Speciality Chemicals, Hercules' Swiss rival, was last night still considering whether to put in a counter offer, after Hercules shares fell by 2\frac{1}{16}$ to 46\frac{1}{16}$.

One Hercules shareholder said he was reassured that Keith Elliott, the group's chairman and chief executive officer, said that much of the directors' personal wealth was in the form of Hercules shares and options, so they had every incentive not to overpay in an auction.

Ciba is believed to be considering less drastic cost-cutting than Hercules, and is keen to retain Allied's senior management. Its original recommended bid proposal was hammered out with Allied's board and advisors at Schroders in the Savoy Hotel over the weekend.

Morgan Stanley cut its forecast of Hercules' 1998 earnings yesterday, but Mr Elliott told analysts that the sterling/dollar exchange rate had moved in Hercules' favour since it first bid $1.8bn in November.

He added that the bid would still benefit 1999 earnings at the current price of £1.35bn ($2.2bn). Its current 195p per share bid compares with an original price of 155p, and with Ciba's announcement on Monday that it was considering a 182.75p recommended offer.

Allied's shares rose 3p to 199½p yesterday as analysts speculated that Ciba might return with a bid of 200p-210p. Hercules disclosed that it bought a 3.56 per cent stake on Monday at 195p per share. This compares to the 4.57 per cent stake bought by Ciba at 182p.

It emerged that trustees of a long-term incentive plan for Allied Colloids' management bought 446,000 shares on Monday at 185p – above the level of Ciba's proposed deal – before Hercules lifted its bid to 195p. Allied's advisors said the purchase was cleared with the Takeover Panel and would allow the trustees to deliver stock that has already been conditionally awarded.

Shares of Ciba, which had risen on Monday, fell by SFr3.5 to SFr169 yesterday as the group reported a 19 per cent rise in full-year sales to SFr7.8bn ($5.27bn).

Pru's new business falls in quarter

By Christopher Brown-Humes

Problems in its UK salesforce and a disappointing fourth quarter in the US hit new business at Prudential Corporation last year and sent its shares falling yesterday.

The UK's biggest life group saw underlying new UK business growth fall 3 per cent, while the US was down 27 per cent in the final quarter.

The shares fell from 796p to 770p. Analysts blamed the unexpected US deterioration, but they also highlighted profit-taking after the rise in the shares from 721p at the start of the year.

The Pru's UK equivalent premium income – an industry measure combining regular premiums with 10 per cent of single premiums – fell from £590m to £571m ($931m). These figures excluded the initial contribution from newly-acquired Scottish Amicable, and investment products.

"These are worse UK new business figures than we saw from either Norwich Union or Legal & General", said Roman Cizdyn, analyst with Merrill Lynch.

But he stressed the market had been expecting poor UK results after well-publicised problems with the Pru's UK salesforce.

These led the company to retest its entire 5,000 sales personnel, which involved taking them off active selling duty for a short period. This, with a moratorium on recruits, has cut the salesforce by about 500. Prudential estimated it had lost about £40m of sales because of the restructuring.

Scottish Amicable contributed £109m of single premiums and £21m of regular premiums in the quarter.

In the US, Jackson National Life saw final quarter new business slump to £466m, against £998m in the third quarter and £637m a year ago. The company said this reflected lower sales of Guaranteed Income Contracts and lower US interest rates.

NEWS DIGEST

Reed Elsevier to pay compensation

Reed Elsevier, the Anglo-Dutch publishing group, is to offer companies that advertised in the group's hotel and airline directories about £200m ($326m) compensation for overstating their circulation figures. The offer, which follows the discovery last September that circulations of titles such as Hotel & Travel Index had been exaggerated for the past five years, is likely to bring the total cost of the affair to about £450m.

The Reed Travel Group of titles is also to be split between two other divisions of Reed Elsevier. Kathy Misunas, who has been chief executive of Reed Travel for the past year, is to leave as a result of the restructuring.

Shares in Reed International, which has 50 per cent of Reed Elsevier along with the Dutch group Elsevier, closed 13p up at 653p on confirmation that compensation would be in line with analysts estimates of £150m to £200m.

Reed Elsevier confirmed that it intended to write down the £462m intangible assets of Reed Travel by a "substantial" amount in its 1997 accounts. City analysts have estimated the likely write-down at £200m-£250m.

The company said it intended to place its hotel directories and travel business magazines under Reed Elsevier Business Information in the US, while its airlines titles would be managed under Reed Business Information in the UK. *John Gapper*

CRH spending spree

CRH, the Ireland-based building materials group, has completed a series of continental European and North American acquisitions for a total of I£47m ($64.9m), taking the value of its deals agreed last year to about I£200m.

Deals in North America were worth I£35m and included Utility Precast in Dallas; 65 per cent of Groupe Permacon, a Canadian masonry and paving company; Cordell Brick, a Houston-based concrete brick and block company; Central Utah Block in Salt Lake City; Glass Distributors of America with sites in Georgia, North Carolina and Florida; and Custom Glass of Vancouver.

CRH has also concluded a further I£12m of deals in Europe for the outstanding 10 per cent of Marlux Group, a decorative concrete paving company, and the 20 per cent minority of Heras, a Dutch fencing and security systems company. *Andrew Taylor*

Lonrho talks with JCI

Lonrho, the conglomerate trying to hammer out a new identity as a coherent mining group, should be able to report progress on its acquisition talks with JCI, the South African mining house, at its results on Thursday.

South African observers said yesterday that Sir John Craven and Nicholas Morrell, Lonrho's chairman and chief executive, had held "constructive" talks in Johannesburg with Vaughan Bray, who became JCI's chief executive last month when Mzi Khumalo had to step down as executive chairman. The pair also met executives at Anglo American, and are thought to have agreed a deal in principle. Lonrho will not be able to disclose full details on Thursday, however, as its planned deal hinges on the completion of an asset swap between JCI and Anglo.

Lonrho's main interest in buying JCI is the ability to buy back a large block of shares, but it is also pursuing JCI's Tavistock Mining colliery through Duiker Mining, in which Lonrho has a 61 per cent stake. Delays to the negotiations have badly damaged Lonrho's shares. Yesterday, however, they rallied 3½p to 85½p. *Andrew Edgecliffe-Johnson*

Butte Mining to delist

Butte Mining, whose shares have been suspended since January 1997, yesterday asked to be delisted by the London Stock Exchange. The board concluded the expense of complying with the exchange's requirements while Butte was restructuring were not in shareholders' interests.

The stock exchange has recommended, and the company agreed, that shareholder approval be obtained for the sale of its mining property in Montana. *Kenneth Gooding*

Ransomes urges acceptance

Ransomes, the Suffolk-based mower manufacturer, yesterday appealed to holders of its convertible preference shares to stop standing in the way of a recommended takeover offer from Textron, the diversified US group.

Paul Hollingworth, Ransomes' company secretary, wrote to shareholders to "encourage those who have not yet accepted to do so as soon as possible." If Textron does not get acceptances from 90 per cent of Ransomes' preference shares, its £141.5m offer will lapse.

CPF shares suspended

Compagnie de Participations Financières (Luxembourg), the Aim-listed property company which on Friday said it was having funding difficulties, yesterday said its shares had been temporarily suspended pending an announcement. The shares were suspended at 307½p.

INTERNATIONAL CAPITAL MARKETS

Italy bolstered by passing Emu hurdle

GOVERNMENT BONDS

By Simon Davies in London and John Labate in New York

Government bond markets edged higher yesterday, with Italy and Spain continuing to outperform Germany following Monday's positive Ecofin meeting.

GERMAN BUNDS got off to a strong start, following the emergence of rumours that this morning's announcement of the Ifo business climate index would demonstrate plummeting confidence. The Ifo index is considered one of the most important economic indicators.

The March contract gained 0.27 to 106.62 on the rumour, but eased back to settle at 106.37, up 0.02 on the day.

There was little shift in the yield curve, which has widened by 15 basis points since the start of January, due to a strong performance at the short-end in response to an apparently more benign interest rate outlook.

ITALIAN BTPs continued to benefit from the passing of one of the final hurdles to European monetary union membership. The March contract settled 0.20 higher at 117.48, and the spread against bunds narrowed to 33 basis points.

Bundesbank president Hans Tietmeyer's supportive comments in the newspapers helped sentiment. But most strategists believe that yields have converged and there is little potential for further outperformance.

Phyllis Reed, at Barclays Capital, said: "I think it is going to be impossible for the Germans and Dutch to block Italian entry to Emu, but I think there could be some surprises. Things could get messy in the run up to German elections."

SPANISH BONOs moved in line with Italy. The spread against bunds narrowed by 1 basis point to 29, while the March contract in Barcelona settled at 107.62, up 0.02.

UK GILTS settled ⅝ higher at 123⅜ on more active turnover of 72,000 contracts, but there was some nervousness ahead of today's release of December retail sales figures.

The yield curve became more inverted, as short-dated bonds moved sideways in advance of the sales data. Richard Iley, UK economist at ABN Amro, said: "I would expect inversion to continue in the short-term."

The spread against bunds narrowed 2 basis points to 109 points, but Mr Iley said significant further spread compression would require a weakening of bund yields, which he does not expect until the second half.

The Bank of England announced a £2bn auction of a new 30-year gilt next week. Analysts expect healthy demand but suggested it could stifle the rally in longer-dated bonds.

US TREASURIES were mixed by midday on the first day of trading since Friday. In quiet trading, the benchmark 30-year bond was ¾ higher at 104⅜, sending the yield down to 5.786 per cent.

Ahead of forthcoming auctions, the five-year note was ⅜ lower at 101, yielding 5.391 per cent but the two-year note was up ⅛ to 100⅜, yielding 5.331 per cent. The Federal Funds rate stood at 5.50 per cent.

With no significant economic reports released to the market and Asian markets calm overnight, investors in Treasuries had little to react to in the morning session.

"The bond market was a bit higher over the weekend but sold off gradually when New York opened," said Ken Fan, US government bond strategist at Paribas Capital Markets. Treasuries also fell as the results season bolstered US stocks.

The yield curve, the spread between the two-year note and the 30-year bond, flattened in morning trading, standing at just over 45 basis points by early afternoon.

Today traders will focus on the Federal Reserve's "Beige Book" release. New data on housing starts will be released on Thursday.

Foray into D-Marks for Hungarian bank

INTERNATIONAL BONDS

By Edward Luce and Samer Iskandar in London and Anatol Lieven in Budapest

The National Bank of Hungary yesterday followed Turkey's lead earlier in the week with a bravely timed foray into the D-Mark sector. However, traders said the DM500m floating-rate bond issue was priced too aggressively at 37.5 basis points over Libor.

"This was a competitively bid deal so I think aggression was in the air," said one trader. "It was at least 10 basis points too tight." The deal was lead-managed by DG Bank.

The Hungarian bank admitted that the deal – the tightest margin secured by Hungary so far in the euro-bond market – was priced very competitively.

"The National Bank managed to get the best possible price available in the European market, a price which is similar to sales by European Union members," it said in a statement.

The EUROPEAN INVESTMENT BANK launched this year's first issue of seven-year bonds in the dollar sector. This maturity has been rarely tapped by borrowers since the US Treasury stopped issuing seven-year notes in the early 1990s.

Bankers, however, said there was demand from investors in maturities other than five and 10 years, which have seen heavy supply in recent weeks.

"Since the yield curve started steepening two weeks ago, investors have been willing to pick up yield by extending beyond five-year maturities," said Tokyo-Mitsubishi International, joint lead manager with Merrill Lynch.

Two weeks ago, the extra yield available from switching out of two-year notes into 10-year bonds was only 8 basis points. This yield pick-up had increased to about 20 points yesterday. Merrill Lynch said the bond offered a reasonable pick-up over EIB's five-year issue, which is trading at a spread of 19 basis points in the secondary market.

Tokyo-Mitsubishi reported strong demand from Asia, particularly from Japan. It said demand for dollar-denominated assets had increased after last week's rise in the yen to less than Y130 against the dollar.

BANK OF SCOTLAND yesterday issued its first perpetual bond since 1996 in a £150m offering. The bond, which is callable after 25 years with a step-up of 100 basis points, was priced to yield 125 basis points over gilts. An official at Merrill Lynch, sole lead manager, said the upper tier two bond was also the bank's first offering since it issued a $300m perpetual in the US last year.

● Cades, the French state-backed entity responsible for managing the accumulated debts of the social security system, yesterday appointed Paribas and Deutsche Morgan Grenfell as lead managers for its forthcoming euro-tributary bond issue.

CDC Marchés will be global co-ordinator, with Paribas joint lead manager for the French franc tranche. Deutsche will jointly lead the D-Mark tranche.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
■ US DOLLARS							
European Investment Bank	500	6.625	99.586R	Feb 2005	0.30R	+25(5¾%Dec02)	Merrill/Tokyo-Mitsubishi
KfW International Finance	200	5.50	99.674R	Feb 2002	0.225R	+20(5¾%Nov02)	Dresdner KB
■ D-MARKS							
Allianz Finance(a)§	2bn	3.00	100.00	Feb 2003	2.50	-	Dresdner/SBCWDR
DSL Finance	1bn	4.50	99.436R	Feb 2003	0.25R	+15(4½Aug02)	Barclays/CSFB
National Bank of Hungary‡	500	(b)	99.685R	Feb 2003	0.30R	-	DG Bank
■ STERLING							
Bank of Scotland(c)	150	7.375	99.66R	undated	0.625R	+125(8%-21)	Merrill Lynch International
Slough Estates	125	7.125	99.429R	Feb 2010	0.55R	+120(9%-08)	SBC Warburg Dillon Read
GECC	125	6.00	97.22R	Feb 2003	0.25R	+20(7%Jun02)	SBC Warburg Dillon Read
Housing Assoc Funding(d)	65	8.25#	114.817R	Jun 2027	0.625R	+75(8%-2015)	Morgan Stanley DW
■ FRENCH FRANCS							
Province of Quebec	2bn	5.50	98.94R	Feb 2010	0.375R	+47(i)	Société Générale
3CIF(e)	2bn	5.25(l)	98.586R	Apr 2008	0.375R	+35(5%Apr08)	CDC Marchés
Florimmo, Class A1(f)‡	1.5bn	(f1)	100.00R	Feb 2001	0.10R	-	Crédit Agricole Indosuez
Morgan Stanley DWD & Co‡	1bn	(g)	99.867R	Feb 2000	0.175R	-	Morgan Stanley DW
■ ITALIAN LIRE							
Parmalat Finance Corp	800bn	zero	13.16R	Feb 2026	0.165R	-	Chase Manhattan Intl
■ GUILDERS							
3CIF(e)	500	5.25(l)	98.251R	Apr 2008	0.375R	+40(i)	ABN Amro Bank
■ DANISH KRONER							
Bayerische Vereinsbank	400	5.25(s)	102.25	Dec 2004	1.875	-	Bank Brussels Lambert
■ SWEDISH KRONOR							
Crédit Local de France	500	5.25	101.55	Mar 2002	1.625	-	BfL

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡ Floating-rate note. #Semi-annual coupon. R: Fixed re-offer price; fees shown at re-offer level. a) Exchangeable into shares of Deutsche Bank at DM142.25. Callable after 3 yrs subject to 130% hurdle at par. b) 3-mth Libor +⅜%. c) Callable on 10/2/23 and every 5 yrs at par. If not called, coupon steps up to 5-yr gilts +225bp. d) Fungible with £68.25m. Plus 53 days accrued. Amortises: av life 20.3 yrs. e) FFr2bn and Fl 500m are fungible upon Emu. f) Securitised mortgages. Average life: 1.43 yrs. f1) 3-mth Pibor +5bp. f2) Also issued: Class A1 FFr915m domestic issue and Class B private placement. g) 3-mth Pibor flat. i) Over interpolated yield. l) Long 1st coupon. s) Short 1st coupon.

CAPITAL MARKETS NEWS DIGEST

Slovakia rating put under review

Slovakia's Baa3 rating has been put on review for a possible downgrade by Moody's, the rating agency, because of the country's "consistently high" fiscal and current account deficits. Moody's said the twin deficits are increasingly financed by foreign borrowing and short-term debt, and the economy and the servicing of foreign debt are susceptible to external shocks and swings in public confidence.

The high real interest regime imposed to support the currency and restrain consumption had increased the cost of government borrowing on its Kcs37bn deficit last year and had forced companies to borrow abroad. The central bank has estimated that gross foreign debt will rise this year to about $10bn, 50 per cent of GDP.

Robert Anderson, Prague

■ ISRAELI BANKING

FIBI eurobond to raise $200m

First International Bank of Israel (FIBI), the country's fourth largest bank, plans to launch its first international bond issue at the end of the first quarter – $200m of five-year eurobonds to be listed in London. The bank said the move reflected growing international interest in the Israeli market. FIBI, part of the Safra banking group, said the issue of floating-rate notes would be managed by United Bank of Switzerland.

FIBI's offering follows a flurry of international financing activity by Israel's largest banks. Bank Hapoalim, the country's biggest, established a $600m global medium-term note programme last October. In the same month, Bank Leumi, Israel's second biggest bank, announced a $1bn borrowing plan that included $275m of eurobonds placed last month.

Avi Machlis, Jerusalem

■ KAZAKHSTAN PRIVATISATION

Banks appointed for spring sales

Kazakhstan yesterday appointed banking groups to lead-manage share offerings in five of its top companies as it seeks to get its stock market off the ground. The National Securities Commission said it had appointed ABN Amro Rothschild to sell a stake of up to 4.5 per cent of Kazakhtelekom, and a consortium led by Lazard Freres to sell a 5-7 per cent stake in Mangistaumunaigaz, the country's biggest oil company.

Credit Suisse First Boston heads a group to sell up to 20 per cent of Khezkazgantsvetmet, a copper company. Global Securities, a Turkish finance house, will lead the sales of stakes in Aktobemunaigaz, an oil company, and in Ust-Kamenogorsk, a titanium and magnesium group. The appointments follow the setting up last year of Kazakhstan's stock market and a pledge to privatise state-run enterprises. The stakes are likely to be offered for sale in the spring.

Vincent Boland

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Jan 20	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	04/00	7.000	103.7470	5.19	-0.03	+0.10	-0.29	-0.99
	10/07	10.000	130.2575	5.83	+0.01	+0.17	-0.23	-1.42
Austria	09/99	7.000	104.4400	4.15	-0.02	-0.01	-0.21	-0.31
	07/07	5.625	103.4600	5.15	-0.03	-	-0.18	-0.56
Belgium	01/00	4.000	99.9500	4.03	-0.02	-0.01	-0.27	+0.57
	03/07	6.250	107.6500	5.15	-0.03	+0.02	-0.22	-0.65
Canada	09/99	4.750	99.7800	4.89	+0.01	+0.15	-0.33	+0.96
	06/07	7.250	113.7000	5.35	-0.01	+0.10	-0.30	-1.24
Denmark	12/99	6.000	103.1200	4.23	-0.03	+0.03	-0.25	-0.44
	11/07	7.000	112.2200	5.36	-0.03	-0.02	-0.28	-1.00
Finland	01/99	11.000	106.7891	3.79	-0.03	+0.04	-0.29	+0.33
	04/06	7.250	114.0560	5.11	-0.01	-0.02	-0.27	-0.66
France	01/00	4.000	99.9600	4.02	-	-0.01	-0.27	-0.46
	10/04	6.750	111.1700	4.77	+0.01	+0.03	-0.19	-0.23
	10/07	5.500	103.1000	5.06	+0.01	+0.02	-0.16	-0.51
	10/25	6.000	105.0100	5.64	-0.01	+0.02	-0.18	-0.86
Germany	09/99	4.000	100.2400	3.84	-	-0.04	-0.20	+0.57
	11/04	7.500	115.0900	4.64	+0.02	+0.03	-0.23	-0.47
	07/07	6.000	106.7800	5.08	-	+0.02	-0.17	-0.59
	07/27	6.500	112.0100	5.65	-0.03	+0.02	-0.19	-0.93
Ireland	04/99	6.250	101.6600	4.75	-	+0.08	-0.33	-0.89
	08/06	8.000	117.7400	5.36	-	-0.04	-0.18	-1.16
Italy	05/00	6.000	102.8100	4.69	-0.05	+0.01	-0.16	-1.45
	05/02	6.250	104.9600	4.95	-0.02	+0.02	-0.16	-1.45
	07/07	6.750	110.1500	5.36	-0.03	+0.02	-0.20	-1.93
	11/26	7.250	119.1100	5.87	-0.02	+0.04	-0.19	-1.97
Japan	03/00	6.400	112.3100	0.61	+0.02	+0.03	-0.03	-0.09
	12/04	4.800	116.7000	1.27	+0.02	-0.08	-	-0.46
	09/05	3.000	108.9100	1.75	+0.02	+0.08	+0.04	-0.53
	09/17	3.000	108.3700	2.56	+0.02	+0.09	+0.04	-0.57
Netherlands	11/99	7.500	106.0200	3.98	+0.01	-0.05	-0.25	+0.38
	07/07	5.750	105.0900	5.04	-0.01	+0.02	-0.16	-0.57
New Zealand	02/00	8.000	98.3731	7.38	+0.04	-0.19	-0.40	+0.35
	11/06	8.000	108.4826	6.69	-0.01	-0.01	-0.41	-0.68
Norway	01/99	9.000	104.7000	4.20	-0.02	-0.06	-0.20	-0.41
	01/07	6.750	110.1400	5.30	-0.05	-	-0.14	-0.67
Portugal	03/99	9.500	104.5049	4.43	-0.03	-0.04	-0.29	-1.01
	02/07	6.625	108.9032	5.36	-0.02	-0.01	-0.23	-1.18
Spain	07/99	7.400	104.2812	4.39	-0.07	-0.07	-0.12	-0.88
	03/07	7.350	114.4234	5.32	-	+0.02	-0.17	-1.29
Sweden	01/99	11.000	105.8718	4.61	-0.01	-0.03	-0.30	+0.58
	08/07	8.000	117.6720	5.56	-0.03	-0.02	-0.39	-1.04
Switzerland	03/00	5.000	106.9200	1.67	-0.02	+0.03	-0.27	-0.27
	06/07	4.500	111.6500	3.03	-0.05	-0.08	-0.20	-0.74
UK	06/99	6.000	98.6984	6.76	-0.03	+0.24	-	-0.29
	11/04	6.750	103.0906	6.13	-0.02	+0.10	-0.17	-0.69
	12/07	7.250	108.6875	6.07	-0.01	-0.09	-0.18	-1.32
	06/21	8.000	124.4688	6.03	-0.02	+0.07	-0.17	-1.57
US	10/99	5.625	100.3980	5.38	-0.01	+0.10	-0.29	-0.59
	11/04	7.875	113.2500	5.51	-0.02	+0.11	-0.23	-0.80
	08/07	6.125	104.3910	5.63	-0.01	+0.12	-0.19	-1.02
	08/27	6.375	107.4610	5.84	-0.01	+0.08	-0.12	-0.99
ECU	01/00	4.000	99.4000	4.32	+0.01	+0.01	-0.30	+0.35
	04/07	5.500	102.1600	5.20	-	+0.03	-0.19	-0.81

London closing. *New York closing. Source: Interactive Data/FT Information. Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Jan 20	Yield	Spread vs Bunds	Spread vs T-Bonds		Yield	Spread vs Bunds	Spread vs T-Bonds
Australia	5.83	+0.75	+0.30	New Zealand	6.69	+1.61	+1.16
Austria	5.15	+0.07	-0.38	Norway	5.30	+0.22	-0.23
Belgium	5.13	+0.07	-0.38	Portugal	5.36	+0.28	-0.17
Canada	5.35	+0.27	-0.18	Spain	5.32	+0.24	-0.21
Denmark	5.36	+0.28	-0.17	Sweden	5.56	+0.48	+0.03
Finland	5.11	+0.03	-0.42	Switzerland	3.03	-2.05	-2.50
France	5.06	-	-0.47	UK	6.07	+0.99	+0.54
Germany	5.08	-	-0.45	US	5.53	+0.45	-
Ireland	5.36	+0.28	-0.17	ECU	5.20	+0.12	-0.33
Italy	5.36	+0.28	-0.17				
Japan	1.75	-3.33	-3.78				
Netherlands	5.04	-0.04	-0.49				

Source: Interactive Data/FT Information. London closing. * New York closing. Annualised yield basis.

EMERGING MARKET BONDS

Jan 20	Red date	Coupn	S & P Ratng	Bid price	Bid yield	Day's chge yield	Mth's chge yld	Sprd vs US
■ EUROPE								
Croatia	02/02	7.000	BBB-	93.0375	9.07	+0.36	+0.29	+3.70
Poland	07/04	7.125	BBB-	102.4492	6.65	-0.01	-0.01	+1.22
Russia	06/07	10.000	BB-	90.7433	11.64	-0.26	-0.26	+6.14
■ LATIN AMERICA								
Argentina	09/27	9.750	BB	94.5000	10.34	-0.03	-0.47	+4.55
Brazil	05/27	10.125	BB-	91.1350	11.15	+0.07	-0.37	+5.36
Mexico	05/26	11.500	BB	116.0000	9.62	-	-0.22	+3.85
■ ASIA								
China	07/06	7.750	BBB+	102.0739	7.40	+0.35	-	+1.92
Philippines	10/16	8.750	BB+	94.2013	10.72	+0.02	+0.41	+5.08
Thailand	04/07	7.750	BBB-	93.7868	10.58	-0.27	+1.06	+5.06
■ AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB-	102.2500	8.06	+0.20	-0.04	+2.72
South Africa	10/06	8.375	BB+	99.1843	8.50	-0.03	+0.25	+3.02
Turkey	09/07	10.000	B	101.4153	9.75	-0.05	-0.44	+4.25
■ BRADY BONDS								
Argentina	03/23	5.500	BB	73.3800	8.56	+0.05	-0.31	+2.83
Brazil	04/14	4.500	BB-	76.3800	10.30	-	-0.46	+4.69
Mexico	12/19	6.250	BB	84.0000	7.78	-0.01	-0.26	+2.10
Venezuela	03/20	6.750	B+	85.5000	8.17	+0.27	-0.16	+2.48

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	103.08	103.00	+0.14	103.18	102.98	85,627	138,144
Jun	102.40	102.32	+0.16	102.46	102.30	574	2,591
Sep	102.16	102.08	+0.16	102.18	102.16	2	-

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Jan	Calls Feb	Calls Mar	Puts Jan	Puts Feb	Puts Mar
97	5.86	5.86	5.17	-	-	0.10
98	4.86	4.86	4.25	-	0.01	0.20
99	3.86	3.88	3.40	-	0.05	0.37
100	2.87	2.93	2.62	0.01	0.08	0.49
101	1.88	2.04	1.94	0.02	0.19	0.79

Est. vol. total, Calls 3,095 Puts 13,557. Previous day's open int., Calls 93,052 Puts 146,102.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	106.40	106.37	+0.02	106.62	106.34	153477	257656
Jun	105.96	105.79	+0.02	105.97	105.90	1120	4119

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Feb	Calls Mar	Calls Apr	Calls Jun	Puts Feb	Puts Mar	Puts Apr	Puts Jun
10600	0.46	0.86	0.80	1.13	0.09	0.49	1.01	1.34
10650	0.15	0.58	0.59	0.90	0.28	0.71	1.30	1.61
10700	0.03	0.37	0.42	0.70	0.66	1.00	1.63	1.91

Est. vol. total, Calls 15095 Puts 27617. Previous day's open int., Calls 230182 Puts 272482

■ NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	105.20	105.14	-0.04	105.26	105.11	103,427	225,479
Jul	-	104.71	-0.03	-	-	-	1,130

■ NOTIONAL GERMAN BOBL FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	105.13	105.13	-0.02	105.26	105.18	1,842	30,579
Jun	104.69	104.69	-0.02	-	-	-	-

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	117.36	117.48	+0.20	117.57	117.36	47287	123589
Jun	116.92	116.93	+0.20	116.92	116.84	3831	16906

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Mar	Calls Jun	Puts Mar	Puts Jun
11700	0.97	1.33	0.49	1.40
11750	0.68	1.07	0.70	1.64
11800	0.46	0.86	0.98	1.93

Est. vol. total, Calls 3074 Puts 1934. Previous day's open int., Calls 62005 Puts 71810

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	107.75	107.62	+0.02	107.83	107.58	60,577	96,018

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	123-14	123-21	+0-12	123-27	123-14	73597	189612
Jun	107-17	107-10	+0-03	107-17	107-08	499	1925

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Feb	Calls Mar	Calls Apr	Calls Jun	Puts Feb	Puts Mar	Puts Apr	Puts Jun
123	0-49	1-22	0	0	0-07	0-44	15-44	15-44
124	0-12	0-52	0	0	0-34	1-10	16-44	16-44
125	0-03	0-30	0	0	1-25	1-52	17-44	17-44

Est. vol. total, Calls 521 Puts 1176. Previous day's open int., Calls 73114 Puts 34281

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	-	102.22	+0.22	102.26	102.16	275	6,865

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	122-07	122-19	+0-09	122-22	122-05	331,008	689,265
Jun	121-30	122-08	+0-08	122-10	121-26	5,104	40,435
Sep	121-30	121-30	+0-08	121-30	121-21	1,151	8,641

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Mar	129.55	-	-	129.58	129.40	1289	n/a
Jun	128.97	-	-	128.98	128.92	127	n/a

* LIFFE futures also traded on APT. All Open Interest figs. are for previous day.

US CORPORATE BONDS

Jan 16	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
■ UTILITIES								
Pac Bell	07/02	7.25	A+	105.1701	5.90	+0.09	-0.31	+0.50
NY Tel	08/25	7.00	A+	100.4223	6.96	+0.06	-0.15	+1.16
CWE	05/08	8.00	BBB	110.8107	6.56	+0.11	-0.22	+1.04
■ FINANCIALS								
GECC	05/07	6.75	AAA	118.7092	6.08	+0.06	-0.29	+0.56
Banc One	08/02	7.25	A+	105.2810	5.90	+0.06	-0.37	+0.50
US West	01/07	7.30	BBB+	105.0220	6.55	+0.07	-0.25	+1.03
■ INDUSTRIALS								
WMX Tech	04/99	6.25	A-	100.1805	6.08	+0.05	-0.35	+1.07
Wal Mart	05/02	6.75	AA	103.5401	5.80	+0.05	-0.27	+0.40
Dayton Hud	06/21	9.70	BBB+	131.8514	6.92	+0.08	-0.17	+1.12
■ AGENCIES								
FHLMC	04/07	7.14	N/A	108.1705	5.83	+0.06	-0.29	+0.31
SLMA	03/00	7.50	N/A	103.9486	5.50	+0.05	-0.35	+0.17
FNMA	02/18	6.95	N/A	132.3084	5.84	+0.05	-0.27	+0.32
FFCB	09/06	6.95	N/A	120.3910	5.83	+0.06	-0.27	+0.31
■ HIGH YIELD								
Stone Cont	02/01	9.88	B	101.0000	0.00	-	-	-
AK Stl	12/01	9.13	BB-	104.7500	0.00	-	-	-
Pacalta	06/04	10.75	B-	98.5000	0.00	-	-	-

New York closing. Source: Interactive Data/FT Information. Standard & Poor's ratings. Yields: semi-annual basis.

US INTEREST RATES

Latest — Treasury Bills and Bond Yields

		One month	-	Two year	5.33
Prime rate	8½	Two month	-	Three year	5.35
Broker loan rate	7¼	Three month	5.14	Five year	5.40
Fed funds	5½	Six month	5.18	10-year	5.52
Fed funds at intervention	-	One year	5.21	30-year	5.79

INTERNATIONAL BONDS

Jan 20	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
■ EURO DM								
EIB	02/07	5.750	AAA	104.5200	5.11	+0.02	-0.17	+0.13
Spain	01/07	5.750	AA	103.8200	5.20	+0.01	-0.21	+0.22
Philip Morris	03/04	5.375	A	100.8800	5.20	+0.01	-0.20	+0.55
Finland FRN	09/02	3.820	AA	100.7168	4.02	-	-0.25	-0.23
■ EURO FFR								
Austria	01/04	5.500	AAA	103.6500	4.78	-0.01	-0.20	+0.16
Abbey Nat	02/04	6.000	AA	105.6800	4.90	-	-0.21	+0.28
Cred Foncier	02/04	9.125	A	119.9200	5.21	-	-0.19	+0.59
3CIF FRN	12/01	3.750	AA-	99.8555	4.21	-	-0.21	+0.03
■ EURO LIRA								
EIB	02/07	7.000	AAA	111.4600	5.37	-0.03	-0.12	+0.09
Abbey Nat	02/02	6.900	AA	106.3500	5.09	-0.03	-0.23	+0.21
Walt Disney	06/00	8.625	A	107.7800	5.09	-0.04	-0.16	+0.45
EIB FRN	03/01	5.625	AAA	100.1953	4.62	-0.05	-0.12	-0.07
■ EURO £								
EIB	12/07	7.625	AAA	109.1854	6.34	-0.02	-0.16	+0.22
Dresdner Bk	12/07	7.750	AA-	106.2063	6.86	-0.02	-0.14	+0.74
British Gas	03/00	7.625	A+	100.8914	7.19	-0.02	-0.10	+0.42
Abbey Nat FRN	02/02	7.830	AA	99.9794	6.36	-0.02	-0.09	-0.13
■ EURO $								
EIB	04/07	7.250	AAA	109.4516	5.89	-0.01	-0.20	+0.39
ABN Amro	06/07	7.125	AA-	105.5605	6.33	+0.01	-0.09	+0.83
Quebec	01/07	7.000	A+	104.8289	6.29	-0.01	-0.12	+0.79
Citicorp FRN	02/04	5.938	A+	99.4780	6.04	-0.03	+0.08	+0.61
■ EURO C$								
Bayer L-Bk	08/04	9.500	AAA	120.0597	5.73	+0.06	-0.29	+0.24
Toronto	05/04	8.500	AA+	115.1924	5.58	-	-0.36	+0.09
Bell Canada	07/99	10.625	A+	106.9437	5.65	+0.06	-0.15	+1.00
Deutsche B FRN	09/02	5.875	AAA	101.3911	5.53	-0.02	-0.06	+0.12
■ EURO YEN								
World Bank	03/02	5.250	AAA	116.6000	1.15	+0.02	+0.07	+0.23
Spain	03/02	5.750	AA	116.6500	1.14	-0.01	+0.01	+0.22
Cred Foncier	08/02	4.750	A	113.5506	1.63	+0.01	-0.02	+0.71
Italy FRN	07/99	0.594	AA	100.3212	0.31	+0.01	-0.10	-0.07

London closing. Source: Interactive Data/FT Information. Standard & Poor's ratings. Yields: Local market standard/Annualised basis.

UK BONDS

FTSE Actuaries Govt. Securities — UK Indices

Price Indices UK Gilts	Tue Jan 20	Day's change %	Mon Jan 19	Accrued interest	xd adj. ytd		Low coupon yield Jan 20	Jan 19	Yr. ago	Medium coupon yield Jan 20	Jan 19	Yr. ago	High coupon yield Jan 20	Jan 19	Yr. ago
1 Up to 5 years (18)	120.18	0.05	120.13	2.42	0.61	5 yrs	6.28	6.30	7.09	6.37	6.39	7.13	6.43	6.44	7.16
2 5-15 years (21)	160.81	0.11	160.64	1.97	0.74	15 yrs	6.06	6.07	7.60	6.07	6.09	7.58	6.18	6.20	7.48
3 Over 15 years (4)	197.28	0.14	197.00	2.60	0.00	20 yrs	6.08	6.07	7.68	6.06	6.07	7.63	6.18	6.19	7.50
4 Irredeemables (4)	244.31	0.18	243.88	3.00	0.00	Irred.†	6.18	6.19	7.74						
5 All stocks (47)	153.47	0.10	153.32	2.32	0.58										

Index-linked							Inflation 5% Jan 20	Jan 19	Yr. ago	Inflation 10% Jan 20	Jan 19	Yr. ago
6 Up to 5 years (2)	213.82	0.06	213.70	1.88	0.00	Up to 5 yrs	2.99	3.00	3.17	2.21	2.22	2.45
7 Over 5 years (10)	217.87	0.14	217.57	1.08	1.14	Over 5 yrs	3.00	3.01	3.56	2.79	2.80	3.35
8 All stocks (12)	216.36	0.13	216.07	1.15	1.02							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Jan 20	Jan 19	Jan 16	Jan 15	Jan 14	Yr ago	High*	Low*
Govt. Secs. (UK)	102.96	103.19	103.28	103.22	103.41	94.75	103.92	93.31
Fixed Interest	138.48	137.99	138.51	138.49	138.69	117.45	139.27	115.32

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UK GILTS PRICES

	Notes	Yield Int	Yield Red	Price £	+ or -	1997/98 High	1997/98 Low
Shorts" (Lives up to Five Years)							
Treas 4⅝pc 1998‡‡		3.99	7.12	116	—	116⅛	113¾
Treas 7¼pc 1998‡‡		7.25	7.25	100	—	101⅛	100
Treas 15½pc '98‡‡		14.69	7.11	105½	-⅛	114⅛	105½
Exch 12pc 1998		11.55	7.10	103⅞	—	109⅞	103⅞
Treas 9½pc 1999‡‡		9.28	6.99	102⅜	—	105⅝	102¼
Treas Fltg Rate 1999‡‡		-	-	100⅛	—	100⅛	100⅛
Exch 12¼pc 1999		11.58	7.00	105⅞	+⅛	111⅛	105⅞
Treas 10½pc 1999		10.05	6.93	104⅞	—	108⅛	104⅞
Treas 6pc 1999‡‡		6.07	6.77	98⅞	+⅛	99⅛	96⅞
Conv 10¼pc 1999		9.68	6.80	105⅞	+⅛	109⅛	105⅞
Treas 8½pc 2000	★	8.24	6.74	103⅛xd	—	104⅞	102⅞
Conv 9pc 2000‡‡		8.62	6.77	104⅜	—	106½	103⅞
Treas 13pc 2000		11.40	6.80	114½	+⅛	119⅜	113⅛
Treas 14pc 1998-1		13.09	7.07	102⅞	-⅛	110⅛	102⅞
Treas 8pc 2000‡‡		7.72	6.61	103⅝	+⅛	104⅞	102⅞
Treas Fltg Rate 2001		-	-	100⅛	—	100⅛	100⅛
Treas 10pc 2001		9.16	6.67	109⅛	+⅛	112⅞	98⅞
Conv 9½pc 2001‡‡	★	8.75	6.67	108⅞	—	108⅞	107⅞
Conv 9¾pc 2001	★	8.90	6.66	109½	+⅛	110⅞	108⅞
Treas 7pc 2001‡‡		6.89	6.49	101⅞	+⅛	102⅞	98⅞
Exch 12pc 1999-2	★	11.47	7.17	104⅞xd	—	109⅛	104⅞
Conv 10pc 2002	★	8.85	6.40	113	+⅛	113⅞	109⅞
Treas 7pc 2002‡‡		6.84	6.38	102⅛	+⅛	103⅞	97⅞
Five to Fifteen Years							
Conv 9½pc 2002	★	8.52	6.41	111⅞	+⅛	112⅞	108⅛
Treas 9¾pc 2002		8.63	6.44	112⅞	+⅛	122¼	109½
Exch 9pc 2002	★	8.15	6.43	110⅞	+⅛	111⅞	106⅞
Conv 9¾pc 2003‡‡	★	8.51	6.44	114⅞	+⅛	115⅞	110⅞
Treas 8pc 2003‡‡		7.44	6.18	107⅝	+⅛	108⅞	102⅞
Treas 13¾pc 2000-3	★	11.86	6.73	115⅞xd	+⅛	119⅞	115⅞
Treas 10pc 2003		8.54	6.35	117⅛	+⅛	118⅛	111⅞
Treas 11½pc 2001-4		10.13	6.68	113⅝	+⅛	116⅞	112⅞
Treas 10pc 2004	★	8.43	6.35	118⅝	+⅛	119⅞	113
Funding 3½pc 1999-4		3.84	5.73	91⅛	+⅛	91⅞	82⅞
Conv 9½pc 2004		8.07	6.25	117⅞	+⅛	118⅞	109⅞
Treas 6¾pc 2004‡‡		6.55	6.19	103⅛	+⅛	103⅞	94⅞
Conv 9½pc 2005		8.00	6.23	118⅛	+⅛	122⅞	110⅞
Exch 10½pc 2005	★	8.37	6.24	125⅞	+⅛	128⅞	117⅞
Treas 12½pc 2003-5		9.65	6.35	129⅞	+⅛	130⅞	124⅞
Treas 8½pc 2005‡‡		7.43	6.12	114⅞	+⅛	115⅞	104⅞
Conv 9¾pc 2006	★	7.84	6.12	124⅞	+⅛	125⅞	113⅞
Treas 7¾pc 2006‡‡		6.86	6.12	109⅞	+⅛	110⅞	98⅞
Treas 7¾pc 2006‡‡		7.01	6.16	110⅞	+⅛	111⅞	99⅞
Treas 8pc 2002-6‡‡		7.54	6.49	106⅛	+⅛	106⅞	100⅞
Treas 11¾pc 2003-7		9.59	6.41	122½xd	+⅛	123⅞	115⅞
Treas 8½pc 2007‡‡		7.28	6.15	116⅛	+⅛	117⅛	105⅛
Treas 7¼pc 2007‡‡		6.67	6.07	108⅞	+⅛	109⅞	95⅞
Treas 13½pc 2004-8	★	9.96	6.41	135⅞	+⅛	136⅞	131⅞
Treas 9pc 2008‡‡		7.29	5.98	123⅝	+⅛	124⅛	108⅞
Treas 8pc 2009		6.89	6.05	115⅛	+⅛	116⅞	101
Treas 6¼pc 2010‡‡		6.17	6.10	101⅛	+⅛	102⅞	86⅛
Conv 9pc Ln 2011‡‡		7.13	6.11	126⅞	+⅛	127⅞	109½
Treas 9pc 2012‡‡		7.07	6.13	127⅞xd	+⅛	128⅞	109⅛
Treas 5½pc 2008-12‡‡		5.76	5.99	95⅞	+⅛	96⅛	80⅞
Treas 7¾pc 2012-15‡‡		6.76	6.18	114⅞xd	+⅛	115⅛	98⅞
Over Fifteen Years							
Treas 8pc 2013‡‡		6.75	6.14	118⅞	+⅛	119⅞	100⅞
Treas 8pc 2015‡‡		6.62	6.07	120⅞	+⅛	122⅛	101⅞
Treas 8¾pc 2017‡‡		6.72	6.09	130⅛	+⅛	131½	103⅞
Exch 12pc 2013-17	★	7.57	6.15	158⅛	+⅛	159⅞	138⅛
Treas 8pc 2021‡‡		6.49	6.04	124⅞	+⅛	125⅞	101⅞
Undated							
Consols 4pc		6.37	-	62⅞	+⅛	64⅛	49⅛
War Loan 3½pc‡‡		6.13	-	57⅛	+⅛	58⅛	43⅞
Conv 3½pc '61 Aft.		4.56	-	76⅞	+⅛	77⅞	60⅞
Treas 3pc '66 Aft.		6.58	-	45⅝	+⅛	46⅛	36⅞
Consols 2½pc		6.16	-	40⅝	+⅛	41⅛	31⅞
Treas. 2½pc		6.26	-	39⅞	+⅛	40⅛	30⅞

Index-Linked	Notes (b)	Yield (1)	Yield (2)	Price £	+ or -	1997/98 High	1997/98 Low
2½pc '99	★	2.39	3.02	188⅞	+⅛	188⅞	179⅞
2½pc '01	(78.3)	2.98	3.30	195⅞	+⅛	195⅞	184⅞
2½pc '03	(78.8)	2.97	3.19	192⅞	+⅛	193⅞	180⅞
4⅛pc '04‡‡	(135.6)	2.95	3.14	124⅞	+⅛	124⅞	117⅞
2pc '06	(69.5)	2.99	3.14	207⅞xd	+⅛	207⅞	190
2½pc '09	(78.8)	2.99	3.10	188⅞	+⅛	189⅞	170⅞
2½pc '11	(74.6)	2.98	3.09	195⅞	+⅛	196⅞	176⅞
2½pc '13	(89.2)	2.99	3.08	163⅞	+⅛	164⅞	144⅞
2½pc '16	(81.6)	3.00	3.07	175⅞xd	+⅛	178⅞	153⅞
2½pc '20	(83.0)	3.01	3.08	171⅞	+⅛	173⅞	147⅞
2½pc '24‡‡	(97.7)	3.01	3.06	144⅞	+⅛	145⅞	122⅞
4⅛pc '30‡‡	(135.1)	2.99	3.05	141⅞xd	+⅛	143⅞	119⅞

Prospective real redemption rate on projected inflation of (1) 5% and (2) 3%. (b) Figures in parentheses show RPI base for indexing (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in February 1987. Conversion factor 3.945. RPI for May 1997: 156.9 and for December 1997: 160.0.

Other Fixed Interest

	Notes	Yield Int	Yield Red	Price £	+ or -	1997/98 High	1997/98 Low
Asian Dev 10¼pc 2009		7.84	6.35	130⅞	-⅛	130⅞	118⅞
B'ham 11½pc 2012		8.01	6.82	143½	—	143½	128½
Leeds 13½pc 2006		9.41	-	143½	—	144½	132½
Liverpool 3½pc Irred		6.86	-	51	—	51	37½
LCC 3pc '20 Aft.		6.67	-	45	—	45	35
Manchester 11½pc 2007		8.55	6.70	134½	—	134½	121½
Met. Wtr. 3pc 'B'		3.45	5.75	87	—	87	79
N'wide Anglia 3¾pc 2021		-	3.72	167⅞xd	-⅛	168⅛	142⅞
4¼pc IL 2024		-	3.76	158⅞	-⅛	160⅞	137¼

● 'Tap' stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Prospective real Index-Linked redemption yields are calculated by HSBC Greenwell from Bank of England closing prices. ★ Indicative price.

CURRENCIES AND MONEY

Governor sends pound below DM3.00

MARKETS REPORT

By Simon Kuper

The pound fell yesterday after Eddie George, governor of the Bank of England, complained about its strength. "That makes life extremely uncomfortable not just for the exposed sectors but for us, the monetary policy committee," he said.

Currency strategists took this as a hint that with the pound above DM3 to the D-Mark, the Bank might hold back from raising interest rates for fear of hoisting sterling even higher. However, Jeremy Hawkins, chief economist at Bank of America in London, cautioned: "In the past Mr George has shown that when push comes to shove, it is the domestic economy that takes priority in setting rates."

The pound dropped 0.8 cents against the dollar and 0.6 pfennigs against the D-Mark to close in London at $1.628 and DM2.998.

The dollar shrugged off the falling pound to advance modestly against the D-Mark. It closed 0.4 pfennigs higher at DM1.841, partly thanks to rumours that today's German Ifo survey of December business sentiment would be weak. The dollar was barely changed against the yen at Y129.0.

The Indonesian rupiah, Malaysian ringgit and South Korean won gave up some ground after their recent surges against the dollar.

The Bank of Canada intervened again to support the Canadian dollar after disappointing manufacturing orders figures hit the currency, which is near a 12-year low.

■ **Pound in New York**

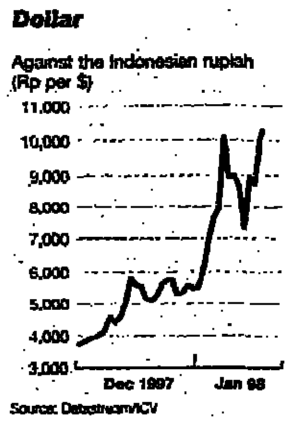
Jan 20	- Latest -	- Prev. close -
£ spot	1.6290	1.6335
1 mth	1.6223	1.6310
3 mth	1.6179	1.6260
1 yr	1.5961	1.6045

■ Last July, the pound rose to DM3.08 against the D-Mark. When it then slumped, currency strategists agreed that this bull run had hit its peak. But now the pound has returned to the DM3.00 level, and many predict that it can go higher still.

Mr Hawkins says: "We could see a temporary move above DM3 just on the grounds that if you are going to sell sterling, what do you buy?" Few investors favour the D-Mark at the moment. Asian currencies are generally considered too risky for sizeable bets, and much of the market is already long the dollar. Michael Burke, senior economist at Citibank in London, adds that sterling can rise precisely because most investors expect it to fall. That means that few long positions have been built up so far. He adds: "Near term, there still seems to be a head of steam left behind consumer demand."

Dollar

Against the Indonesian rupiah (Rp per $)



Source: Datastream/ICV

■ The Irish punt fell against the D-Mark after Monday's Ecofin meeting of European finance ministers passed with no sign that the currency might be revalued.

The punt has long been trading well above its mid-rate within the European exchange-rate mechanism of DM2.41, and there had been talk that the mid-rate would be raised before economic and monetary union began. But after the silence of Ecofin, and a mere 1.5 per cent rise in consumer prices for 1997, the punt fell 1.4 pfennigs against the D-Mark to DM2.515.

■ No one dares say it outright, but everywhere market analysts are cautiously suggesting that the Asian crisis might just possibly be beginning to ease.

Goldman Sachs yesterday enumerated what it considers to be the good news from the region:

● Japan appears to be preparing a fiscal stimulus that could be worth as much as Y10,000bn, or 2 per cent of gross national product.

■ **OTHER CURRENCIES**

Jan 20	£	$
Czech Rp	58.1163 - 58.2084	35.6920 - 35.7370
Hungary	339.031 - 339.279	208.250 - 208.300
Iran	4886.40 - 4884.00	3000.00 - 3000.00
Kuwait	0.4980 - 0.4991	0.3059 - 0.3064
Poland	5.7778 - 5.7871	3.5490 - 3.5530
Russia	9.7835 - 9.7899	6.0095 - 6.0105
UAE	5.9772 - 5.9850	3.6715 - 3.6745

● The market is applauding Korea's efforts to refinance its debts.

● The Korean and Thai current accounts have already moved into surplus.

● Korea, and to a lesser degree Indonesia and Thailand, appears to be making policy changes.

● China seems to have a "very, very strong" commitment to maintain the currency pegs of the yuan and the Hong Kong dollar.

Avinash Persaud, global head of foreign exchange research at J.P. Morgan in London, says: "Lamentable is the life of the returns-driven investor faced with pitifully low yields on US Treasuries, Italian government and Australian government bonds. To her eyes, the potential returns in some Asian markets will appear temptingly lucrative."

A possible sign of a turn in emerging markets is that Poland is now intervening to weaken its currency.

POUND SPOT FORWARD AGAINST THE POUND

Jan 20		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	21.0884	-0.0469	772 - 996	21.2097	21.0552	21.063	4.1	20.9365	3.8	20.4117	3.4	102.2
Belgium	(BFr)	61.8222	-0.1709	826 - 618	62.1680	61.7490	61.7668	4.4	61.3794	4.0	59.7572	3.6	101.5
Denmark	(DKr)	11.4192	-0.0253	147 - 236	11.4836	11.4020	11.4071	3.9	11.343	3.5	11.0748	3.2	103.9
Finland	(FM)	9.0665	-0.0147	598 - 732	9.1160	9.0530	9.0484	4.5	8.9926	3.9	8.7616	3.5	80.3
France	(FFr)	10.0362	-0.0246	329 - 394	10.0937	10.0215	10.0253	4.2	9.9645	3.8	9.7026	3.6	104.9
Germany	(DM)	2.9975	-0.0068	960 - 989	3.0159	2.9925	2.9937	4.2	2.9759	3.9	2.887	3.6	102.5
Greece	(Dr)	472.195	-0.67	876 - 515	475.207	471.574	476.413	-9.0	483.292	-8.8	506.836	-7.2	65.1
Ireland	(I£)	1.1921	+0.0039	907 - 934	1.1976	1.1893	1.1926	-0.4	1.1932	-0.4	1.1962	-0.3	92.9
Italy	(L)	2944.86	-10.09	342 - 550	2964.89	2941.37	2951.79	1.3	2944.53	1.4	2888.24	2.3	75.3
Luxembourg	(LFr)	61.8222	-0.1709	826 - 618	62.1680	61.7490	61.7668	4.4	61.3794	4.0	59.7572	3.6	101.5
Netherlands	(Fl)	3.3775	-0.0084	761 - 789	3.3978	3.3729	3.3736	4.4	3.3523	4.0	3.2604	3.6	100.8
Norway	(NKr)	12.3560	-0.0186	502 - 618	12.4342	12.3255	12.3322	4.1	12.2598	3.7	11.9873	3.1	97.0
Portugal	(Es)	306.546	-0.622	390 - 703	308.202	306.173	306.474	2.7	305.053	2.8	298.051	3.0	91.2
Spain	(Pta)	253.958	-0.738	805 - 011	256.410	253.540	254.067	2.7	252.9	2.7	247.019	3.0	76.3
Sweden	(SKr)	13.1772	+0.0124	699 - 845	13.2557	13.1517	13.1314	3.0	13.0748	2.7	12.8467	2.4	84.4
Switzerland	(SFr)	2.4409	-0.0112	336 - 422	2.4573	2.4375	2.4386	5.6	2.4156	6.0	2.3155	5.6	107.0
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	105.2
Ecu	-	1.5157	-0.0026	148 - 166	1.5234	1.5137	1.5143	3.4	1.5067	3.1	1.4724	3.0	-
SDR†	-	1.216900											
Americas													
Argentina	(Peso)	1.6282	-0.0073	278 - 286	1.6390	1.6273	-	-	-	-	-	-	-
Brazil	(R$)	1.8239	-0.007	234 - 244	1.8348	1.8230	-	-	-	-	-	-	-
Canada	(C$)	2.3422	-0.0086	412 - 432	2.3664	2.3395	2.3446	3.2	2.3342	2.8	2.294	2.4	82.2
Mexico	(New Peso)	13.3822	+0.0062	708 - 936	13.3945	13.3285	13.5238	-13.3	13.7748	-11.9	14.9323	-11.6	-
USA	($)	1.6284	-0.0073	280 - 288	1.6392	1.6275	1.633	2.0	1.6281	1.8	1.606	1.8	109.9
Pacific/Middle East/Africa													
Australia	(A$)	2.4497	+0.0008	481 - 512	2.4773	2.4435	2.4435	2.6	2.4339	2.5	2.3918	2.3	87.1
Hong Kong	(HK$)	12.5978	-0.0552	939 - 017	12.6782	12.5907	12.7138	-5.8	12.8223	-5.4	13.3873	-5.8	-
India	(Rs)	63.5239	-0.3357	757 - 721	64.0430	63.1730	-	-	-	-	-	-	-
Israel	(Shk)	5.8690	-0.0174	603 - 777	5.8783	5.8552	-	-	-	-	-	-	-
Japan	(Y)	210.015	-0.745	882 - 148	212.270	208.500	208.43	7.6	207.125	6.9	196.675	6.7	121.1
Malaysia	(M$)	6.8718	+0.0637	620 - 817	7.0403	6.8384	6.8918	1.1	6.808	0.1	6.99	-2.7	-
New Zealand	(NZ$)	2.7844	+0.0123	820 - 867	2.8125	2.7807	2.7746	-1.1	2.7778	-0.8	2.7856	-0.5	103.0
Philippines	(Peso)	66.7156	-0.389	503 - 808	67.7040	66.5494	67.7135	-10.9	69.0182	-11.4	75.2072	-12.1	-
Saudi Arabia	(SR)	6.1073	-0.0278	050 - 096	6.1478	6.1044	6.127	1.6	6.1125	1.5	6.048	1.4	-
Singapore	(S$)	2.8522	-0.0038	490 - 553	2.8849	2.7498	2.8693	-5.6	2.8826	-3.7	2.9347	-2.8	-
South Africa	(R)	8.1021	-0.0405	977 - 065	8.1665	8.0974	8.2003	-8.5	8.295	-7.5	8.6764	-6.6	-
South Korea	(Won)	2672.20	+82.89	992 - 449	2697.24	2665.46	-	-	-	-	-	-	-
Taiwan	(T$)	54.6532	-0.2941	210 - 853	55.0960	54.8026	54.8747	1.6	54.7456	1.5	54.132	1.5	-
Thailand	(Bt)	86.5495	+0.0209	654 - 336	88.5490	85.0720	87.2434	-9.9	88.5699	-9.4	95.3998	-10.3	-

† Rates for Jan 16. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, offer, mid spot rates and forward rates in both this and the Dollar table are derived from THE WM/REUTERS CLOSING SPOT and FORWARD RATE services. Some values are rounded by the F.T.
The exchange rates printed in this table are also available on the internet at http://www.FT.com

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jan 20		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan index
Europe													
Austria	(Sch)	12.9504	+0.0291	467 - 541	12.9570	12.9078	12.9274	2.1	12.8884	1.9	12.7384	1.6	102.6
Belgium	(BFr)	37.9650	+0.065	500 - 800	37.9900	37.8800	37.889	2.4	37.7645	2.1	37.2725	1.5	101.7
Denmark	(DKr)	7.0125	+0.0158	115 - 135	7.0155	6.9914	7.0011	1.9	6.9827	1.7	6.9115	1.4	103.4
Finland	(FM)	5.5678	+0.0159	650 - 705	5.5706	5.5490	5.5569	2.4	5.5293	2.1	5.4715	1.7	80.0
France	(FFr)	6.1632	+0.0124	627 - 637	6.1700	6.1465	6.1516	2.3	6.1327	2.0	6.0537	1.5	104.4
Germany	(DM)	1.8408	+0.0041	403 - 412	1.8420	1.8355	1.8374	2.2	1.8316	2.0	1.8079	1.6	102.3
Greece	(Dr)	289.975	+0.885	850 - 100	290.350	289.030	292.625	-11.0	297.725	-10.7	316.525	-9.2	65.0
Ireland	(I£)	1.3661	-0.0106	648 - 673	1.3760	1.3645	1.3654	0.7	1.3655	0.2	1.3755	-0.3	-
Italy	(L)	1808.50	+1.9	800 - 900	1811.50	1805.23	1809.48	-0.7	1810.45	-0.4	1802.25	0.5	75.1
Luxembourg	(LFr)	37.9650	+0.065	500 - 800	37.9900	37.8800	37.889	2.4	37.7645	2.1	37.2725	1.5	101.7
Netherlands	(Fl)	2.0742	+0.0042	738 - 745	2.0796	2.0679	2.07	2.4	2.0632	2.1	2.0361	1.8	102.3
Norway	(NKr)	7.5878	+0.0225	861 - 895	7.5951	7.5616	7.5743	2.1	7.5526	1.9	7.4880	1.3	95.4
Portugal	(Es)	188.250	+0.46	200 - 300	188.340	187.750	188.135	0.7	187.825	0.9	186.04	1.2	91.9
Spain	(Pta)	155.925	+0.245	900 - 950	156.010	155.530	155.828	0.8	155.578	0.9	154.05	1.2	76.1
Sweden	(SKr)	8.0921	+0.0437	896 - 946	8.0961	8.0480	8.085	1.1	8.0743	0.9	8.0426	0.6	84.4
Switzerland	(SFr)	1.4990	-0.0001	985 - 994	1.5015	1.4960	1.4932	4.7	1.4836	4.1	1.4416	3.8	105.5
UK	(£)	1.6284	-0.0073	280 - 288	1.6392	1.6275	1.6257	2.0	1.6209	1.9	1.5985	1.8	104.7
Ecu	-	1.0744	-0.0028	740 - 747	1.0780	1.0730	1.0757	-1.5	1.0779	-1.3	1.0851	-1.3	-
SDR†	-	0.74730	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9999	-	999 - 999	0.9999	0.9999	-	-	-	-	-	-	-
Brazil	(R$)	1.1201	+0.0008	200 - 201	1.1205	1.1195	-	-	-	-	-	-	-
Canada	(C$)	1.4384	+0.0012	381 - 386	1.4430	1.4375	1.4369	1.2	1.4349	1.0	1.4295	0.6	82.4
Mexico	(New Peso)	8.2180	+0.0405	130 - 230	8.2250	8.2120	8.322	-15.2	8.501	-13.8	9.335	-13.6	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	110.5
Pacific/Middle East/Africa													
Australia	(A$)	1.5043	+0.0072	038 - 049	1.5113	1.5014	1.5035	0.6	1.5009	0.9	1.4902	0.9	57.4
Hong Kong	(HK$)	7.7363	+0.0008	358 - 368	7.7390	7.7355	7.7863	-7.6	7.8765	-7.2	8.3353	-7.8	-
India	(Rs)	39.0100	+0.03	900 - 300	39.1200	38.6500	-	-	-	-	-	-	-
Israel	(Shk)	3.6042	+0.0055	997 - 088	3.6114	3.5950	-	-	-	-	-	-	-
Japan	(Y)	128.970	+0.12	920 - 020	129.750	128.700	128.365	5.6	127.335	5.1	122.52	5.0	122.2
Malaysia	(M$)	4.2200	+0.0577	150 - 250	4.3205	4.1800	4.223	-0.9	4.238	-1.7	4.41	-4.5	-
New Zealand	(NZ$)	1.7098	+0.015	088 - 109	1.7158	1.7086	1.7129	-2.2	1.7183	-2.0	1.7371	-1.6	-
Philippines	(Peso)	40.9700	-0.055	400 - 000	41.6000	40.8000	41.4105	-12.9	42.335	-13.3	46.772	-14.2	-
Saudi Arabia	(SR)	3.7505	-0.0003	500 - 510	3.7511	3.7497	3.7517	-0.4	3.7542	-0.4	3.7655	-0.4	-
Singapore	(S$)	1.7515	+0.0055	500 - 530	1.7650	1.7375	1.7625	-7.5	1.776	-5.6	1.8328	-4.6	-
South Africa	(R)	4.9755	-0.0025	740 - 770	4.9900	4.9730	5.019	-10.5	5.0922	-9.4	5.3998	-8.5	-
South Korea	(Won)	1641.00	+58	000 - 200	1651.00	1590.00	-	-	-	-	-	-	-
Taiwan	(T$)	33.5625	-0.03	510 - 740	33.7150	33.5450	33.5735	-0.4	33.595	-0.4	33.675	-0.3	-
Thailand	(Bt)	53.1500	+0.25	500 - 500	53.3000	52.0000	53.675	-11.9	54.65	-11.3	59.65	-12.2	-

† SDR rate per $ for Jan 16. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Jan 16: Base average 1990=100.
The exchange rates printed in this table are also available on the internet at http://www.FT.com

MONEY RATES

January 20	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.00	2.75	-
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.60	-	3.30
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.50	2.50	3.30
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.75
Italy	[illegible]	[illegible]	6	[illegible]	[illegible]	7.00	5.50	6.23
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	2.75	3.30
Switzerland	1	[illegible]	[illegible]	[illegible]	[illegible]	-	1.00	-
US	[illegible]	[illegible]	[illegible]	[illegible]	6	-	5.00	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
■ **$ LIBOR FT London**								
Interbank Fixing	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
US Dollar CDs	-	5.35	5.39	5.41	5.44	-	-	-
ECU Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
SDR Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo Mitsubishi, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Jan 20	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
German Mark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	5 - [illegible]	[illegible]	5 - [illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canadian Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	6 - [illegible]	[illegible]	[illegible]
Japanese Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	1 - [illegible]	15 - 10½	15 - [illegible]	14½ - 11	[illegible] - 11	9 - 6

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ **THREE MONTH PIBOR FUTURES** (MATIF) Paris Interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	96.36	96.36	-	96.37	96.35	4,023	76,403
Jun	96.24	96.24	+0.01	96.25	96.23	2,931	45,149
Sep	96.12	96.13	-	96.15	96.13	2,577	31,115

■ **THREE MONTH EUROMARK FUTURES** (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	96.37	96.36	+0.01	96.38	96.36	29558	352076
Jun	96.23	96.24	+0.01	96.26	96.23	39152	339722
Sep	96.15	96.14	+0.01	96.16	96.13	26515	240237
Dec	96.00	96.00	+0.02	96.02	95.99	31126	231058

■ **ONE MONTH EUROMARK FUTURES** (LIFFE)* DM3m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Feb	96.48	96.48	-0.02	96.48	96.48	50	133
Mar	96.45	96.45	+0.02	96.45	96.45	500	150
Apr	-	96.40	-	-	-	0	60
May	-	96.38	-	-	-	0	1

■ **THREE MONTH EUROLIRA FUTURES** (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	94.44	94.45	+0.02	94.47	94.43	19427	138600
Jun	95.22	95.29	+0.06	95.31	95.23	40050	137615
Sep	95.64	95.64	+0.06	95.66	95.61	13850	91959
Dec	95.71	95.74	+0.03	95.76	95.71	12461	114178

■ **THREE MONTH EURO SWISS FRANC FUTURES** (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	98.46	98.46	+0.03	98.49	98.46	5560	69899
Jun	98.33	98.35	+0.03	98.36	98.32	4094	37058
Sep	98.22	98.23	+0.03	98.24	98.21	848	20926
Dec	98.04	98.05	+0.03	98.06	98.03	262	11049

■ **THREE MONTH EUROYEN FUTURES** (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	99.17	99.17	-0.04	99.17	99.17	300	n/a
Jun	-	99.28	-0.04	-	-	0	n/a
Sep	-	99.28	-0.04	-	-	0	n/a

■ **THREE MONTH ECU FUTURES** (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	95.66	95.65	-	95.66	95.64	678	8615
Jun	95.71	95.69	-	95.71	95.66	173	6780
Sep	95.72	95.71	+0.01	95.72	95.70	304	9581
Dec	95.88	95.68	+0.02	95.88	95.88	40	4281

* LIFFE futures also traded on APT

■ **EUROLIRA OPTIONS** (LIFFE) L1000m points of 100%

Strike Price	CALLS Mar	Jun	Sep	PUTS Mar	Jun	Sep
9425	0.28	1.06	1.41	0.08	0.02	0.02
9450	0.13	0.82	1.17	0.18	0.03	0.03
9475	0.04	0.60	0.94	0.34	0.06	0.05

Est. vol. total, Calls 16278 Puts 4186. Previous day's open int., Calls 174045 Puts 74744

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Jan 20		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.47	16.23	4.849	1.928	4764	5.463	19.99	495.9	410.7	21.31	3.948	1.618	3.789	2.634	339.7	2.452
Denmark	(DKr)	54.14	10	8.789	2.625	1.044	2579	2.958	10.82	268.4	222.4	11.54	2.138	0.876	2.051	1.426	183.9	1.327
France	(FFr)	61.60	11.38	10	2.987	1.188	2934	3.365	12.31	305.4	253.0	13.13	2.432	0.996	2.334	1.623	209.3	1.510
Germany	(DM)	20.62	3.809	3.348	1	0.398	982.5	1.127	4.122	102.3	84.71	4.396	0.814	0.334	0.781	0.543	70.06	0.506
Ireland	(I£)	51.86	9.580	8.420	2.515	1	2471	2.834	10.37	257.2	213.0	11.05	2.048	0.839	1.965	1.366	176.2	1.272
Italy	(L)	2.099	0.388	0.341	0.102	0.040	100	0.115	0.420	10.41	8.622	0.447	0.083	0.034	0.080	0.055	7.131	0.051
Netherlands	(Fl)	18.30	3.381	2.971	0.887	0.353	871.9	1	3.658	90.76	75.17	3.901	0.723	0.296	0.693	0.482	62.18	0.449
Norway	(NKr)	50.03	9.242	8.123	2.426	0.965	2383	2.734	10	248.1	205.5	10.66	1.976	0.809	1.896	1.318	170.0	1.227
Portugal	(Es)	20.17	3.725	3.274	0.978	0.389	960.7	1.102	4.031	100	82.83	4.299	0.796	0.326	0.764	0.531	68.51	0.494
Spain	(Pta)	24.35	4.497	3.953	1.181	0.469	1160	1.330	4.866	120.7	100	5.190	0.961	0.394	0.923	0.641	82.71	0.597
Sweden	(SKr)	46.92	8.666	7.616	2.275	0.905	2235	2.563	9.377	232.6	192.7	10	1.852	0.759	1.778	1.236	159.4	1.150
Switzerland	(SFr)	25.33	4.678	4.112	1.228	0.488	1206	1.384	5.062	125.6	104.0	5.398	1	0.410	0.960	0.667	86.04	0.621
UK	(£)	61.82	11.42	10.04	2.998	1.192	2945	3.378	12.36	306.5	253.9	13.18	2.441	1	2.342	1.628	210.0	1.516
Canada	(C$)	26.39	4.875	4.285	1.280	0.509	1257	1.442	5.275	130.9	108.4	5.626	1.042	0.427	1	0.695	89.66	0.647
USA	($)	37.97	7.013	6.163	1.841	0.732	1809	2.074	7.588	188.3	155.9	8.092	1.499	0.614	1.438	1	129.0	0.931
Japan	(Y)	29.44	5.437	4.779	1.427	0.568	1402	1.608	5.883	146.0	120.9	6.274	1.162	0.476	1.115	0.775	100	0.722
Ecu	-	40.79	7.534	6.622	1.978	0.786	1943	2.229	8.152	202.3	167.5	8.694	1.611	0.660	1.545	1.074	138.6	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ **D-MARK FUTURES** (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.5472	0.5454	-0.0021	0.5458	0.5442	17,704	111,102
Jun	0.5479	0.5479	-0.0022	0.5479	0.5479	20	3,387
Sep	-	0.5524	-	-	-	31	1,633

■ **SWISS FRANC FUTURES** (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.6720	0.6719	-0.0001	0.6734	0.6687	12,117	64,725
Jun	0.6785	0.6785	-0.0002	0.6785	0.6785	12	1,019
Sep	-	0.6852	-	-	-	5	1,107

■ **JAPANESE YEN FUTURES** (IMM) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.7832	0.7799	-0.0006	0.7910	0.7763	33,618	88,528
Jun	0.8005	0.7900	-0.0005	0.8005	0.7895	166	2,290
Sep	-	0.8005	-	-	-	171	431

■ **STERLING FUTURES** (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	1.6320	1.6258	-0.0038	1.6380	1.6244	6,113	34,486
Jun	1.6280	1.6190	-0.0038	1.6280	1.6140	38	1,379
Sep	-	1.6090	-0.0054	-	1.6090	2	5

UK INTEREST RATES

LONDON MONEY RATES

Jan 20	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	9 - 6½	7[illegible] - 7[illegible]	7[illegible] - 7[illegible]	7⅝ - 7½	7⅝ - 7½	7[illegible] - 7[illegible]
Sterling CDs	-	-	7[illegible] - 7⅜	7[illegible] - 7½	7[illegible] - 7[illegible]	7[illegible] - 7[illegible]
Treasury Bills	-	-	7¼ - 7⅛	7[illegible] - 7[illegible]	-	-
Bank Bills	-	-	7[illegible] - 7⅛	7[illegible] - 7[illegible]	7[illegible] - 7[illegible]	-
Local authority deps.	7[illegible] - 7	7¼ - 7⅛	7[illegible] - 7[illegible]	7[illegible] - 7[illegible]	7[illegible] - 7[illegible]	7[illegible] - 7[illegible]
Discount Market deps	7[illegible] - 7[illegible]	7[illegible] - 7[illegible]	-	-	-	-

UK clearing bank base lending rate 7¼ per cent from Nov 6, 1997

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1¼pc.
Ave. tender rate of discount on Jan 9, 6.8748pc. ECGD fixed rate Stlg. Export Finance. Make up day Dec 31, 1997. Agreed rate for period Jan 26, 1998 to Feb 24, 1998, Scheme III 8.95pc. Reference rate for period Nov 29, 1997 to Dec 31, 1997, Schemes IV & V 7.709pc. Finance House Base Rate 8pc from Jan 1, 1998

■ **THREE MONTH STERLING FUTURES** (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	92.40	92.41	+0.02	92.43	92.40	14596	136709
Jun	92.46	92.48	+0.04	92.52	92.46	21553	122826
Sep	92.60	92.62	+0.04	92.67	92.60	16573	93821
Dec	92.81	92.83	+0.03	92.89	92.81	14394	87824
Mar	93.03	93.04	+0.02	93.09	93.03	5380	71882

Also traded on APT. All Open interest figs. are for previous day.

■ **SHORT STERLING OPTIONS** (LIFFE) £500,000 points of 100%

Strike Price	CALLS Mar	Jun	Sep	PUTS Mar	Jun	Sep
9225	0.22	0.31	0.35	0.05	0.12	0.14
9250	0.08	0.19	0.34	0.17	0.21	0.22
9275	0.02	0.09	0.20	0.36	0.36	0.33

Est. vol. total, Calls 10546 Puts 3400. Previous day's open int., Calls 191263 Puts 173094

EMS EUROPEAN CURRENCY UNIT RATES

Jan 20	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Ireland	0.798709	0.788027	+0.007536	-1.34	4.15	9
Italy	1906.48	1944.61	-2.78	2.00	0.75	-14
Finland	5.85424	5.98338	+0.00604	2.21	0.54	-15
Spain	163.826	167.627	-0.063	2.32	0.43	-16
Portugal	197.398	202.351	-0.06	2.51	0.24	-17
France	6.45883	6.62513	-0.00571	2.58	0.18	-22
Denmark	7.34555	7.53896	-0.00429	2.60	0.15	-18
Austria	13.5485	13.9209	-0.0051	2.75	0.01	-20
Germany	1.92573	1.97884	-0.00005	2.75	0.01	-27
Netherlands	2.16979	2.22968	-0.00099	2.76	0.00	-20
Belgium	39.7191	40.8145	-0.0246	2.76	0.00	-20
NON ERM MEMBERS						
Greece	295.269	311.835	+0.201	5.54	-2.64	-
UK	0.793103	0.659830	+0.002245	-16.80	23.52	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. 17/9/92 Sterling suspended from ERM. Adjustment calculated by the Financial Times.

■ **PHILADELPHIA SE £/$ OPTIONS** £31,250 (cents per pound)

Strike Price	CALLS Jan	Feb	Mar	PUTS Jan	Feb	Mar
1.630	0.50	1.75	2.34	0.05	1.51	2.32
1.640	0.03	1.28	1.88	0.58	2.06	2.83
1.650	-	0.82	1.46	1.48	2.64	3.44

Previous day's vol., Calls 1,362 Puts 32. Prev. day's open int., Calls 36,030 Puts 22,697

■ **PHILADELPHIA SE D-MARK/$ OPTIONS** DM62,500 ($ per DM)

Strike Price	CALLS Jan	Feb	Mar	PUTS Jan	Feb	Mar
0.540	0.53	0.94	1.24	0.01	0.24	0.54
0.545	0.11	0.64	0.85	0.05	0.50	0.73
0.550	0.01	0.41	0.70	0.42	0.77	0.98

Previous day's vol., Calls 452 Puts 471. Prev. day's open int., Calls 8,750 Puts 19,401

■ **THREE MONTH EURODOLLAR** (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	94.41	94.42	-	94.44	94.39	71,087	482,798
Jun	94.45	94.45	+0.02	94.51	94.45	78,783	401,057
Sep	94.45	94.50	+0.02	94.52	94.44	60,901	282,672

■ **US TREASURY BILL FUTURES** (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	95.20	95.21	+0.01	95.21	95.20	205	7,695
Jun	-	95.25	+0.02	95.25	-	133	1,697
Sep	-	95.27	-	-	-	11	45

All Open interest figs. are for previous day

■ **EUROMARK OPTIONS** (LIFFE) DM1m points of 100%

Strike Price	CALLS Feb	Mar	Apr	Jun	PUTS Feb	Mar	Apr	Jun
9475	1.61	1.61	-	1.49	0	0	0	0
9500	1.36	1.36	1.24	1.24	0	0	0	0
9525	1.11	1.11	0.99	1.00	0	0	0	0.01
9550	0.86	0.86	0.75	0.75	0	0	0.01	0.02

Est. vol. total, Calls 13558 Puts 11176. Previous day's open int., Calls 318031 Puts 398330

■ **EURO SWISS FRANC OPTIONS** (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Mar	Jun	Sep	PUTS Mar	Jun	Sep
9850	0.10	0.12	0.14	0.12	0.27	0.41
9875	0.04	0.06	0.08	0.31	0.46	0.58

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 800 Puts 2595

BASE LENDING RATES

	%		%
Adam & Company	7.25	Exeter Trust Limited	8.00
Allied Irish Bank (GB)	7.25	Financial & Gen Bank	8.00
•Henry Ansbacher	7.25	•Robert Fleming & Co	7.25
Banco Bilbao Vizcaya	7.25	Girobank	7.25
Bank of Cyprus	7.25	•Guinness Mahon	7.25
Bank of Ireland	7.25	Habib Bank AG Zurich	7.25
Bank of India	7.25	•Hambros Bank	7.25
Bank of Scotland	7.25	Heritable & Gen Inv Bk	7.25
Barclays Bank	7.25	C. Hoare & Co	7.25
Brit Bk of Mid East	7.25	Hongkong & Shanghai	7.25
•Brown Shipley & Co Ltd	7.25	Investec Bank (UK) Ltd	7.25
Citibank NA	7.25	Julian Hodge Bank	7.25
Clydesdale Bank	7.25	•Leopold Joseph & Sons	7.25
The Co-operative Bank	7.25	Lloyds Bank	7.25
Coutts & Co	7.25	Midland Bank	7.25
Cyprus Popular Bank	7.25	NatWestminster	7.25
Duncan Lawrie	7.25	•Rea Brothers	7.25
		Royal Bk of Scotland	7.25
		Scottish Widows Bank	7.25
•Singer & Friedlander	7.25		
•Smith & Williamson	7.25		
Sun Banking Corp Ltd	7.25		
TSB	7.25		
United Bank of Kuwait	7.25		
Unity Trust Bank Plc	7.25		
Western Trust	7.25		
Whiteaway Laidlaw	7.25		
Yorkshire Bank	7.25		

• Members of London Investment Banking Association
* In administration

COMMODITIES AND AGRICULTURE

Move to refloat freight indices

London's Baltic Exchange is considering the relaunch of tanker derivatives

Today in London the board of the Baltic Exchange, the world's oldest shipping exchange, is meeting to consider dusting down a piece of history – the provision of a series of tanker freight rate indices. It is an optimistic move; previous attempts failed more than a decade ago.

In 1985, the exchange launched a dry cargo shipping freight index, and in 1986 one for tankers; both linked to derivatives trading. The dry cargo Baltic International Freight Futures Index (Biffex) is still with us, though trading in Biffex futures contracts on the London International Financial Futures Exchange is low.

However, the Tanker International Freight Futures Index (Tiffex) died the same year it was launched. Tiffex traded 121 lots on its first day but swiftly dropped below that. By its end, no more than 30 contracts a day were being traded.

Gordon Southcott, who is putting the new proposals for tanker derivatives to the Baltic Exchange's board, says the plan – which might be termed Tiffex II – is more than a re-creation of the failed index.

For one thing, there is no proposal to create a tanker freight index based on an averaged-out basket of leading tanker routes.

"There are too many indices around as it is. What we are proposing to do is provide a series of tanker route freight scales for the purpose of trading paper," says Mr Southcott, chartering director of Fiona Maritime Agencies and chairman of the Baltic Freight Index Committee. "The Baltic has been asked by the Forward Freight Agreement Brokers Association to set this up."

The FFABA was formed in September 1997 by a group of brokers who actively trade forward freight agreements, or FFAs, which are traded principal-to-principal contracts for a specified route on a specified date.

FFAs provide a means of hedging risk and are, according to some brokers, more flexible and therefore more attractive freight derivatives than the Biffex, which is now an average of 11 different routes. But FFAs have been limited mainly to dry cargoes; the new initiative is to extend them to tankers.

FFA business has soared since the market started in 1992. According to Philippe van den Abeele, director of Clarkson Securities (part of Horace Clarkson), his volume of FFA business – in which neither party to the contract is allowed the option to lift the cargo physically – in dry cargoes and some tanker freight has soared from a £500,000 start in 1992 to $850m in 1997.

Eric Shawyer, chairman of the Baltic Exchange and of the shipbroker E. A. Gibson, has been in the shipbroking industry since 1948. He believes Tiffex died because "the whole business of freight futures and derivatives were in their infancy".

"At that time there was no call for them. I think this new initiative will work but only if it's a tool for business and not merely for gambling," he says.

Tanker indices should provide a useful pricing mechanism

Supporters of the move hope the new tanker freight assessments will also provide a useful pricing mechanism for the tanker freight business as a whole, as well as advancing the cause of FFAs.

Mr van den Abeele supports the Baltic's efforts to get a new tanker freight derivative off the ground, but is "not entirely convinced" it will succeed.

"If it works, then it will be great business for us, but there may difficulty in achieving a sufficiently liquid market for FFAs in tanker freights. I am not sure if those in the tanker industry – principally the charterers – are really keen on the idea. Their main concerns have always been logistics and the actual price of the commodities they trade; the cost of freight has often been relatively incidental to them."

Mr Shawyer says that, if today's board meeting backs the plan, the new tanker freight estimates will be given a dry run on the market "by the end of February".

Is he optimistic they will swim, where Tiffex sank? "Hope springs eternal," he concurs.

Gary Mead

Oil price falls on progress in Iraq

MARKETS REPORT

By Robert Corzine, Kenneth Gooding and Gary Mead

Oil prices softened yesterday as petroleum markets searched for new factors that might set a more definitive tone to trading. Brent Blend for March delivery was $15.63 a barrel in late trading on London's International Petroleum Exchange, 15 cents down on Monday's close.

Some of the weakness was attributed to recognition that progress continued to be made on the Iraqi oil for food deal in spite of renewed confrontation with UN arms inspectors.

On the London Metal Exchange zinc, which on Monday fell by 3 per cent, regained part of the decline, climbing 1.3 per cent, or US$15 a tonne, to close at $1,133. "The target for zinc is to break clear of $1,150 but that's going to be tough," said Alan Williamson, analyst at Deutsche Morgan Grenfell.

Reynolds Metals, second largest US aluminium producer, said it will restart 47,000 tonnes of capacity because demand is strong. It said aluminium consumption should rise by 2.5 to 3.5 per cent this year and by 2.5 to 4 per cent for the rest of the decade.

Gold's price was volatile. At the close in London it was up US$1.20 a troy ounce at $288.75 but during the day had reached $292.

Coffee futures rallied on the London International Financial Futures Exchange, the benchmark March contract closing $23 higher at $1,748 a tonne, having peaked at $1,753 earlier.

Cocoa futures on Liffe also closed higher, up £16 a tonne to £1,049, though no fundamental news drove the fresh interest.

COMMODITIES NEWS DIGEST

Talks restart on Kolwezi project

Talks about the Kolwezi copper-cobalt waste dumps project in the Republic of Congo (formerly Zaïre) will start again today. Gecamines, the state owned mining group, stirred up controversy earlier this month when it cancelled a tender for the project even though American Mineral Fields, a US company, had agreed in April to buy Kolwezi for $1bn.

Gecamines issued a long statement yesterday to clarify its position. It insisted that it had scrupulously complied with its own procedures for granting contracts and said AMF had not satisfied the financial conditions.

AMF is suing Anglo American Corporation, South Africa's biggest company, for $3bn in Texas, claiming Anglo interfered with the negotiations and offered to pay the Congo government tens of millions of dollars in up-front cash to squeeze AMF out. Anglo repeated yesterday that it was not interested in the project and had done no wrong.

A team from AMF arrived in Kinshasa yesterday to reopen talks with the government. An AMF official said: "We have doubts about the Gecamines statement but we don't want to discuss it with the press. It would not benefit our negotiations with the government and Gecamines."

On January 12, AMF completely reconstituted its board and Robert Stewart, the new chairman, is leading its Congo delegation. Mr Stewart, when working for the Bechtel engineering group last year, was directly involved in developing a reconstruction and development plan for Congo. The AMF official said the board reorganisation would have taken place even if there had been no difficulties with the Kolwezi project.

Kenneth Gooding, Mining Correspondent

■ SWINE FEVER

Germany moves to calm concerns

German agricultural officials yesterday moved to calm concerns raised by the latest outbreak of swine fever in the country. At a meeting of European Union farm ministers in Brussels, German officials said they expected the outbreak to die out by the end of the week and that testing was continuing. In the meantime, Germany has stopped the export of pigs from affected areas.

Germany played down a ban imposed by Belgium on all imports of German pigs. According to officials, Belgium will lift the ban once Germany can show that the outbreak is over. In the past two weeks, there have been discoveries of swine fever, which is highly infectious, in two German states. There have been precautionary cullings of pigs in other states, including North Rhine Westphalia which borders Belgium.

The outbreak in Germany, which has affected one of the country's biggest pig rearing farms, comes in the wake of an epidemic last year in the Netherlands. The disease has also appeared in Spain. The European Commission has made clear it has no plans to ban German pig exports, and the farm ministers considered no such proposal at their meeting yesterday.

Meanwhile, Dutch authorities yesterday imposed new curbs on pig farms in the wake of fresh outbreaks in the south of the country.

Daniel Dombey, Brussels

India forced to increase cotton imports

By Kunal Bose in Calcutta

India is being forced to increase imports of cotton because of a shortage of domestic supplies. Bad weather means this season's crop is smaller than expected, and supplies are taking longer than usual to arrive.

A 35 per cent rise in the price of highest quality extra long cotton is also making imported cotton more attractive to textile mills.

The mills are making "fairly large imports" of Giza 86 variety from Egypt and Pima cotton from the US, according to trade officials. They are also importing medium long staple cotton from Russia and Australia.

"The shortage of high quality cotton in the current season will be much greater than the Cotton Advisory Board has projected," an industry official said, "and therefore, the mills must replenish stocks through imports."

Trade officials said the CAB's crop forecast of 16.9m bales (of 170 kg each) for the current season had been "too optimistic". The crop could turn out to be as small as 15.5m bales, they said. Last year's production was a record 17.55m bales.

The domestic crop losses will be highest in the northern Indian states of Punjab, Rajasthan and Haryana. The late arrival of the monsoon, bringing unseasonal rain in October and November, caused withering of cotton bolls and leaf curl virus over large tracts of land.

This will restrict the cotton production of northern states to 3.3m bales in the current year, compared with 4.35m bales in 1996-97.

Nearly 50 cotton growers in Andhra Pradesh, the country's second largest cotton growing state, committed suicide in the past two months as the crop failed in nearly 300,000 acres.

Trade officials said only 4.87m bales arrived to market in the first three months of the season, compared with 5.51m bales last year.

However, India's poor crop monitoring system means the textiles ministry was not aware of the shortfall in production when it released 720,000 bales for export in the current season. Deepak Parikh, chairman of the Indian Cotton Mills Federation, said the government should not allow any further exports.

The CAB said India would start the next season with stocks of only 2.052m bales, which could meet the industry's requirement for a month and a half.

"Normal opening stocks should feed the mills for at least two and a half months," Mr Parikh said.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1467-68	1492-92.5
Previous	1478.5-79.5	1503-04
High/low		1509/1487
AM Official	1480-80.5	1506.5-07.5
Kerb close		1496-97
Open int.	271,748	
Total daily turnover	111,998	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1328-33	1351-55
Previous	1325-35	1352-57
High/low		1360/1351
AM Official	1337-39	1357-60
Kerb close		1353-55
Open int.	5,272	
Total daily turnover	2,213	

■ LEAD ($ per tonne)

Close	510.5-1.5	519-20
Previous	505.5-6.5	514-15
High/low		528/514
AM Official	509-10	518-9
Kerb close		527-8
Open int.	33,230	
Total daily turnover	10,582	

■ NICKEL ($ per tonne)

Close	5300-10	5395-400
Previous	5330-40	5435-45
High/low		5465/5380
AM Official	5325-30	5415-20
Kerb close		5430-35
Open int.	56,379	
Total daily turnover	29,312	

■ TIN ($ per tonne)

Close	5115-25	5160-65
Previous	5100-10	5145-55
High/low		5170/5140
AM Official	5115-20	5150-55
Kerb close		5170-75
Open int.	14,304	
Total daily turnover	5,233	

■ ZINC, special high grade ($ per tonne)

Close	1108-09	1132-33
Previous	1092.5-94.5	1116-18
High/low		1146/1118
AM Official	1108-08.5	1132-33
Kerb close		1146-47
Open int.	73,215	
Total daily turnover	33,424	

■ COPPER, grade A ($ per tonne)

Close	1661-62	1690-91
Previous	1680-81	1706-7
High/low		1712/1683
AM Official	1676-77	1704.5-05
Kerb close		1700-01
Open int.	148,904	
Total daily turnover	75,645	

■ LME AM Official £/$ rate: 1.6313
LME Closing £/$ rate: 1.6285

Spot: 1.6273 3 mths: 1.6198 6 mths: 1.6125 9 mths: 1.6042

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	76.10	-0.20	76.10	75.35	324	807
Feb	76.50	-0.25	76.60	75.50	258	2,800
Mar	77.00	-0.25	77.40	75.75	7,387	33,213
Apr	77.40	-0.20	77.50	77.50	108	1,663
May	77.80	-0.30	78.30	76.80	300	5,874
Jun	78.15	-0.30	78.40	77.60	29	1,724
Total					8,823	68,862

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	288.60-289.10		
Opening	288.00-288.40		
Morning fix	287.20	175.41	430.80
Afternoon fix	288.40	177.06	431.53
Day's High	292.50-293.00		
Day's Low	286.70-287.10		
Previous close	287.30-287.80		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	3.81	6 months	3.74
2 months	3.80	12 months	3.71
3 months	3.79		

Silver Fix	p/troy oz.	US cts equiv.
Spot	355.30	580.00
3 months	354.25	575.65
6 months	355.05	574.15
1 year	354.55	589.25

Gold Coins	$ price	£ equiv.
Krugerrand	287.5-290.5	177-178
Maple Leaf	-	-
New Sovereign	67-70	41-43

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	290.8	+0.2	-	-	-	-
Feb	291.3	+0.2	293.5	287.2	61,207	72,704
Apr	292.7	+0.3	294.8	289.1	4,847	30,804
Jun	294.5	+0.3	297.0	291.0	325	12,586
Aug	296.3	+0.3	294.8	294.8	11	5,676
Oct	298.1	+0.3	-	-	266	3,372
Total					67,589	183,327

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	378.5	+0.9	379.0	379.0	2	69
Apr	374.5	-0.1	376.0	371.0	1,957	9,637
Jul	371.1	+0.5	-	-	48	657
Oct	370.1	+0.5	370.0	369.0	25	333
Total					2,007	10,705

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	230.85	-9.15	233.00	229.00	200	3,334
Jun	225.35	-9.15	227.00	224.00	6	638
Sep	222.35	-9.15	-	-	-	4
Total					206	3,976

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	564.3	-11.5	-	-	5	101
Feb	565.8	-11.0	-	-	-	4
Mar	567.3	-11.0	585.5	566.0	9,368	57,432
May	568.4	-10.9	586.0	567.5	295	8,593
Jul	567.5	-10.8	585.0	568.0	235	7,870
Sep	566.8	-10.7	570.0	569.5	1,527	3,099
Total					10,096	82,334

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Feb	16.57	+0.06	16.83	16.51	42,199	56,737
Mar	16.73	+0.04	17.06	16.70	50,953	105.7k
Apr	16.96	+0.06	17.23	16.94	11,637	43,136
May	17.20	+0.08	17.38	17.18	2,916	28,552
Jun	17.40	+0.07	17.61	17.38	5,053	40,224
Jul	17.60	+0.07	17.77	17.60	2,352	17,680
Total					136,911	437,827

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Mar	15.58	-0.25	15.89	15.56	13,895	94,110
Apr	15.74	-0.20	16.01	15.72	5,473	26,951
May	15.93	-0.16	16.18	15.93	807	16,367
Jun	16.10	-0.15	16.33	16.10	1,255	20,544
Jul	16.31	-0.10	16.42	16.31	320	12,889
Aug	16.59	+0.03	16.62	16.55	212	5,362
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Feb	47.05	+0.30	47.70	46.80	14,496	51,214
Mar	47.40	+0.15	48.15	47.30	10,262	38,180
Apr	47.65	+0.15	48.35	47.60	5,870	18,202
May	47.80	-	48.60	47.80	2,455	10,765
Jun	48.20	+0.10	48.75	48.20	870	15,525
Jul	48.80	+0.20	49.30	48.80	1,125	9,553
Total					37,344	179,079

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	142.25	-1.75	144.50	142.00	5,408	28,028
Mar	143.75	-1.50	145.75	143.50	1,306	13,835
Apr	145.25	-1.75	147.00	145.00	746	10,269
May	147.00	-1.75	149.00	147.00	728	5,430
Jun	149.00	-1.50	150.50	149.00	752	13,103
Jul	151.00	-1.25	152.25	151.00	104	3,485
Total					11,492	101,389

■ NATURAL GAS IPE (1,000 therms; pence per therm)

Feb	14.300	+0.050	14.310	14.300	15	3,345
Mar	11.350	-	11.350	11.250	560	1,790
Total					995	11,946

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Feb	2.100	-0.076	2.175	2.100	31,497	37,894
Mar	2.090	-0.069	2.155	2.085	7,486	27,880
Apr	2.115	-0.040	2.150	2.110	4,303	13,747
May	2.135	-0.020	2.150	2.125	2,440	11,096
Jun	2.145	-0.020	2.165	2.145	745	10,873
Jul	2.165	-0.017	2.190	2.160	907	10,785
Total					60,908	193,938

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Feb	51.30	+0.31	51.90	51.10	17,128	31,167
Mar	51.85	+0.16	52.20	51.65	8,149	23,951
Apr	54.50	+0.38	54.80	54.25	3,613	16,591
May	54.85	+0.33	55.10	54.85	2,758	11,578
Jun	54.90	+0.38	55.15	54.90	2,380	8,798
Jul	54.70	+0.48	55.10	54.70	406	7,258
Total					28,738	106,871

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	77.70	+0.30	-	-	-	39
Mar	79.20	+0.35	79.30	79.05	70	2,737
May	81.20	+0.30	81.40	81.10	112	3,699
Jul	83.20	+0.30	83.40	83.20	31	526
Sep	80.55	+0.30	-	-	-	38
Total					245	8,278

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	332.00	-2.25	336.00	329.50	8,906	52,846
May	341.25	-1.75	344.50	338.00	2,046	14,925
Jul	349.50	-2.00	352.50	347.50	2,719	21,253
Sep	356.25	-0.25	359.00	354.50	31	1,708
Dec	366.75	-1.75	370.00	366.00	150	3,342
Jul	370.00	-	370.00	370.00	25	22
Total					13,852	93,914

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	278.25	+1.25	279.00	275.75	45,180	146,715
May	284.25	+0.50	285.00	282.75	11,255	59,359
Jul	289.25	+0.25	289.75	287.50	9,325	65,752
Sep	283.75	+1.00	284.75	282.25	483	8,912
Dec	283.50	+0.75	284.00	281.00	3,497	38,010
Mar	289.25	+0.50	289.75	287.25	509	1,805
Total					70,273	321,842

■ BARLEY LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	73.60	+0.35	-	-	-	16
Mar	75.10	+0.35	75.10	75.00	120	1,367
May	76.60	+0.60	-	-	-	24
Sep	78.00	+0.80	-	-	-	6
Nov	79.90	+0.50	-	-	-	155
Total					120	1,818

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	678.00	+11.00	682.50	669.50	873	1,046
Mar	674.50	+10.50	680.50	663.25	26,677	58,038
May	677.50	+9.50	684.00	669.00	4,285	27,490
Jul	680.75	+10.25	686.00	671.00	3,716	29,061
Aug	679.50	+10.50	683.50	671.00	354	4,701
Sep	664.25	+6.25	668.00	660.50	59	553
Total					35,913	133,340

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	25.25	+0.70	25.52	24.59	1,286	1,051
Mar	25.65	+0.80	25.84	24.80	9,474	57,667
May	25.91	+0.73	26.10	25.20	1,632	19,796
Jul	26.10	+0.70	26.25	25.40	2,034	15,521
Aug	25.97	+0.62	26.10	25.38	42	4,345
Sep	25.87	+0.60	26.00	25.27	47	1,690
Total					14,699	104,650

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	202.2	+4.9	202.4	198.0	3,264	3,810
Mar	196.4	+2.2	198.0	193.5	11,434	46,200
May	194.2	+1.2	196.5	193.0	3,717	27,866
Jul	196.0	+1.4	198.0	194.4	2,595	18,585
Aug	196.8	+1.2	198.3	195.5	199	7,076
Sep	197.0	+1.0	198.9	195.8	207	4,732
Total					21,634	113,725

■ POTATOES LIFFE (20 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	83.0	-	-	-	-	-
Apr	101.0	-1.5	103.0	101.0	15	1,097
May	111.0	-1.5	-	-	-	67
Jun	121.0	-1.5	-	-	-	-
Nov	54.0	-	-	-	-	3
Total					15	1,207

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	1122	-	1122	1121	17	530
Feb	1110	-	1115	1110	19	249
Mar	1151	+1	1155	1146	24	326
Apr	1170	-	1175	1165	32	471
Jul	1055	-5	1055	1055	33	134
Total					125	1,773

	Close	Prev
BFI	1144	1159

PULP AND PAPER

■ PULPEX OMLX (US$; 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	479.25	-0.75	480.25	479.25	25	383
Jun	502.25	-1.25	505.00	502.25	45	390
Total					58	843

FUTURES DATA

All futures data supplied by CMS.

Minor metals from Metal Bulletin

European free market, $ per lb in warehouse, unless otherwise stated (last week's in brackets, where changed). **Antimony:** 99.65%, $ per tonne, 1,680-1,750 (1,550,-1,620). **Bismuth:** min. 99.99%, tonne lots 3.15-3.35 (3.00-3.20). **Cadmium:** min. 99.95%, cents a pound. 30.00-35.00. **Cobalt:** MB free market, min. 99.8%, 25.00-25.50, min. 99.3%, 18.00-18.50(17.80-18.30). **Mercury:** min. 99.99%, $ per 76 lb flask, 140-150. **Molybdenum:** drummed molybdic oxide, 3.70-3.80 (3.80-3.85). **Selenium:** min 99.5%, 2.00-3.00. **Tungsten ore:** standard min. 65%, $ per tonne unit (10kg) WO_3, CIF, 40-52. **Vanadium:** min. 98%, CIF, 6.40-6.60 (5.95-6.15). **Uranium:** Nuexco unrestricted exchange value, 9.85.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	1049	+16	1050	1030	3,123	61,014
May	1074	+17	1075	1054	3,858	24,732
Jul	1095	+17	1084	1076	149	12,728
Sep	1116	+18	1116	1096	517	22,714
Dec	1144	+18	1145	1123	3,074	27,870
Mar	1172	+18	1173	1150	1,373	18,818
Total					12,189	184,570

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	1594	+42	1600	1559	4,480	31,438
May	1627	+40	1634	1594	1,327	24,901
Jul	1657	+39	1662	1630	193	6,098
Sep	1687	+39	1680	1658	525	5,671
Dec	1719	+39	1727	1690	56	8,701
Mar	1750	+39	1750	1745	26	9,372
Total					6,607	90,780

■ COCOA (ICCO) (SDR's/tonne)

Jan 16	Price	Prev. day
Daily	1220.86	1223.02

■ COFFEE LIFFE (5 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	1827	+16	1830	1800	589	1,992
Mar	1747	+22	1753	1710	3,080	25,208
May	1711	+11	1717	1685	1,436	10,333
Jul	1694	+12	1700	1669	271	2,062
Sep	1678	+6	1686	1670	90	839
Nov	1673	+6	1682	1680	4	48
Total					5,472	40,482

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	178.05	+11.00	178.50	168.00	3,949	15,843
May	168.95	+7.75	169.50	163.50	796	6,350
Jul	161.50	+6.00	162.00	157.50	307	3,198
Sep	154.00	+4.50	154.00	151.00	207	1,583
Dec	146.25	+2.80	146.70	145.00	120	1,748
Mar	140.25	+0.15	141.00	141.00	1	333
Total					5,380	29,083

■ COFFEE (ICO) (US cents/pound)

Jan 16		Prev. day
Comp. daily	129.06	130.19
15 day average	126.85	126.70

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	297.7	-1.6	300.4	297.5	3,625	22,329
May	300.8	-1.7	303.1	300.9	1,089	11,378
Aug	303.8	-1.3	305.6	304.0	435	5,158
Oct	298.1	-1.7	300.3	298.1	122	5,353
Dec	300.3	-2.0	302.0	301.9	9	364
Total					5,312	44,989

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	11.12	-0.08	11.40	11.11	22,380	86,725
May	10.93	-0.09	11.25	10.89	11,049	44,751
Jul	10.92	-0.05	11.07	10.92	3,912	27,992
Oct	10.94	-0.02	11.03	10.96	4,652	34,793
Mar	10.94	-0.04	11.03	10.94	2,636	8,499
May	10.93	-0.04	10.98	10.94	58	1,696
Total					44,992	207,780

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	68.38	+0.20	66.45	65.61	2,627	37,883
May	67.84	+0.25	67.89	67.15	902	15,473
Jul	69.16	+0.28	69.30	68.50	683	15,533
Oct	71.00	+0.30	71.00	70.85	2	1,670
Dec	72.13	+0.32	72.21	71.70	327	15,382
Mar	73.18	+0.35	73.20	73.05	36	640
Total					4,629	87,506

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	94.10	-0.25	94.75	93.95	6,200	22,347
May	96.90	-0.05	97.70	96.70	2,534	6,676
Jul	99.85	+0.10	100.50	99.80	617	4,431
Sep	102.85	+0.35	103.25	102.75	58	2,115
Nov	105.50	+0.75	105.75	105.50	96	1,975
Jan	107.95	+0.95	108.00	107.50	12	595
Total					9,524	38,585

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Jan 20	Jan 19	month ago	year ago
1744.3	1742.8	1744.2	1929.6

■ CRB Futures (Base: 1967 = 100)

Jan 19	Jan 16	month ago	year ago
228.68	na		

■ GSCI Spot (Base: 1970 = 100)

Jan 19	Jan 16	month ago	year ago
na	171.01	180.75	214.75

LME WAREHOUSE STOCKS (tonnes)

Aluminium	-1,825	to	609,025
Aluminium alloy	-120	to	43,120
Copper	+200	to	340,075
Lead	-75	to	110,750
Nickel	-42	to	65,784
Zinc	+775	to	487,450
Tin	-50	to	12,895

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Feb	65.950	-0.475	66.400	65.900	7,911	36,642
Apr	68.650	-0.300	69.100	68.500	5,926	35,636
Jun	68.900	-0.125	69.325	68.775	2,081	21,987
Aug	69.600	-0.275	69.975	69.350	552	7,729
Oct	71.575	-0.350	71.900	71.400	341	2,927
Dec	72.550	-0.350	72.750	72.450	36	604
Total					16,854	105,550

■ LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Feb	57.325	+1.075	57.400	56.600	4,107	20,622
Apr	56.000	+0.700	56.125	55.550	1,992	13,341
Jun	63.650	+0.850	63.700	62.975	1,060	8,334
Jul	63.625	+0.650	63.600	62.700	200	2,711
Aug	61.375	+0.525	61.550	61.000	87	888
Oct	58.400	+0.250	58.500	58.200	60	1,039
Total					7,515	47,258

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Feb	47.650	+0.850	48.900	47.250	1,003	4,853
Mar	47.225	+0.575	48.100	46.850	351	1,785
May	47.425	+0.300	48.350	47.350	81	1,407
Jul	48.700	+0.100	48.750	48.050	49	777
Aug	45.525	+0.300	46.500	45.525	4	169
Total					1,488	9,026

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Feb	May	Feb	May
1475	28	71	19	46
1500	17	58	32	58
1525	9	47	50	72
■ COPPER (Grade A) LME	Feb	May	Feb	May
1650	51	103	18	50
1700	25	76	41	72
1750	10	55	76	99
■ COFFEE LIFFE	Jan	Mar	Jan	Mar
1700	3	87	45	40
1750	-	60	92	63
1800	-	43	142	96
■ COCOA LIFFE	Mar	May	Mar	May
1025	39	72	15	23
1050	26	57	27	33
1075	18	45	44	46
■ BRENT CRUDE IPE	Mar	Apr	Mar	Apr
1550	48	-	39	-
1600	27	55	-	80
1650	15	45	-	105

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)		+or-
Dubai	$13.45-3.55x	-0.21
Brent Blend (dated)	$14.99-5.08	-0.31
Brent Blend (Mar)	$15.63-5.66	-0.20
W.T.I.	$16.77-6.79x	+0.25
■ OIL PRODUCTS NWE prompt delivery CIF (tonne)		
Premium Gasoline	$173-175	-1
Gas Oil	$142-143	-2
Heavy Fuel Oil	$70-72	
Naphtha	$155-156	-1
Jet fuel	$160-162	-2.5
Diesel	$147-149	-2
■ NATURAL GAS (Pence/therm)		
Bacton (Feb)	14.20-14.30	

Petroleum Argus. Tel. London (0171) 359 8792

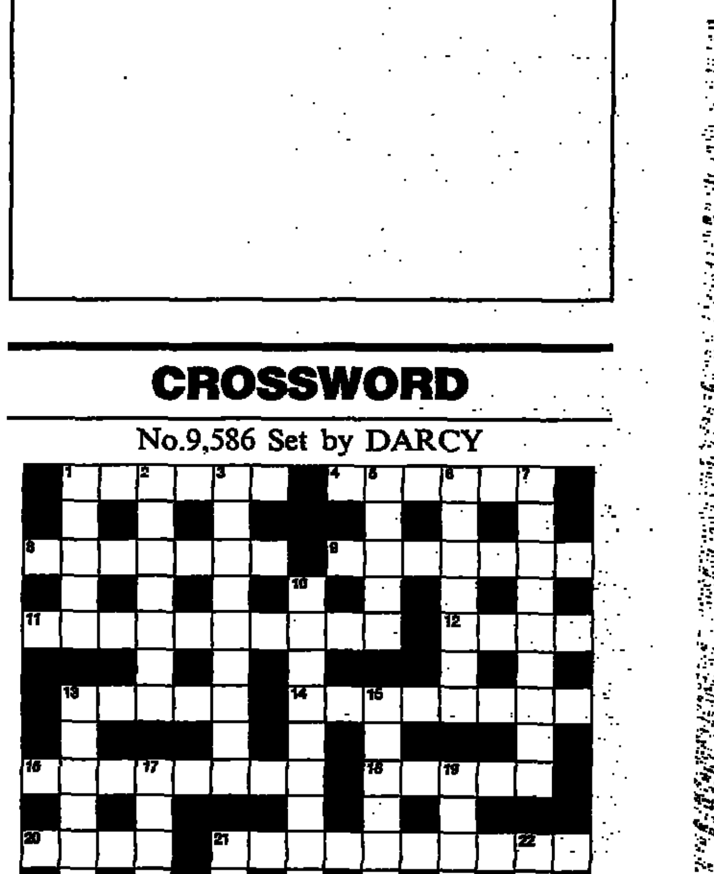
■ OTHER		
Gold (per troy oz)♣	$288.85	+1.30
Silver (per troy oz)♣	580.00c	+3.50
Platinum (per troy oz.)	$374.50	-1.50
Palladium (per troy oz.)	$230.50	-0.50
Copper	82.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	21.41r	+0.48
Tin (New York)	246.5	+1.0
Cattle (live weight)	89.41p	-1.74*
Sheep (live weight)	83.01p	-1.14*
Pigs (live weight)†	64.90p	+0.92*
Lon. day sugar (raw)	$272.00	+1.10
Lon. day sugar (wte)	$297.00	+0.80
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Feb)♥	49.00p	
Rubber (Mar)♥	49.00p	-1.00
Rubber (KL RSS No1)	302.50m	+2.00
Coconut Oil (Phil)§	525.0y	-20.0
Palm Oil (Malay.)§	570.0	
Copra (Phil)§	$380.0y	-2.5
Soyabeans (US)	180.0	
Cotton Outlook'A' index	70.60c	-0.40
Wooltops (64s Super)	387p	+2

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Jan/Feb. x Mar. ♥London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 3,768 head of pigs sold.

JOTTER PAD

CROSSWORD

No.9,586 Set by DARCY



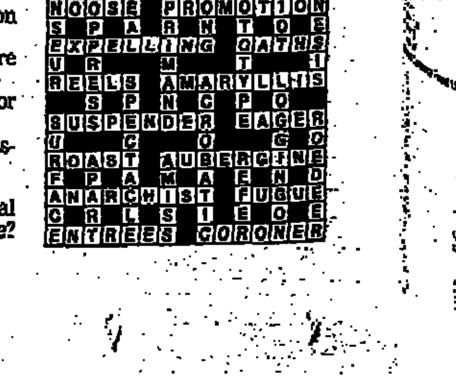
ACROSS

1 One down and six across supply this for a familiar 26 (6)
4 Let out during booze-up, suffering after long haul (3,3)
8 The first person a part of the Bible quoted as 26 (7)
9 Smile, if fellow goes in for 26 (7)
11 Send Tommy home with second, but not last letter (10)
12 I came across rejected article (4)
13 One well versed in 26 (5)
14 Choose wrong, ignoring outsiders in some very small matter (8)
16 One of a dominant few, ape leaves exotic archipelago (8)
18 Elementary part of 14 or 26 (5)
20 Almost finished with new cooker (4)
21 Is nervous reaction in some spheres a lot to do with guns? (10)
23 In a more cryptic version for 26 (7)
24 Mind swapping ends before lutz, omitting first 26? (7)
25 One paying by cheque for storage facility (6)
26 I've finished every crossword ever published! (6)

DOWN

1 Make a move with financial arrangements *incomplete?* (5)
2 For fun, have a go at remixing a mono LP . . . (7)
3 . . . . air Lennon version, lacking directness? (3-6)
5 One entertained by Jane in *high-rise dwelling* (5)
6 Red suits me when it's party time (7)
7 A certain volume of tourism? (9)
10 With pencil, he and I doodle – we're 26s (9)
13 Bowled over, having brought out new issue (9)
15 *Beautiful divorcee is taken* in completely (9)
17 Boat almost left with load shifting (7)
19 Try to be casual during a race meeting (7)
21 Cheese, new in – it's runny and salty (5)
22 Supply food consumed, being in credit (5)

Solution 9,585



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OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (FSA RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (FSA RECOGNISED)

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	Init Charge	Notes	Selling Price	Buying Price	+ or -	Yield Gr's
Aberdeen Fund Mngrs (Luxembourg) Ltd (u)						
4 Boulevard Royal L 2449 Luxembourg 00 352 227001						
Aberdeen Atlas Funds						
Global Cap Portfolio			$3.652		—	-
United States Portfolio			$7.098		—	-
Europe Portfolio		0	DM8.576		—	-
Japan Portfolio			¥0.535		—	-
Far East Emg Ecos Portfolio			$4.008		—	-
Gold Portfolio			$3.177		—	-
UK Growth & Income Portfolio			£2.645		—	3.87
Short-dated Dollar Bd Portfolio			$1.477		—	7.09
Short-dated Sterling Bd Portfolio			£1.045		—	6.30
For Active Master Fund see Luxembourg Regulated						
American Phoenix Investment Portfolios (u)						
13 rue Goethe, L-1637 Luxembourg 00 352 404646211						
European Multinational Pfolio			Ecu26.59		+0.07	-
European Multinational Pfolio			$28.63		+0.14	-
European Multinational Pfolio			£17.54		+0.11	-
European Multinational Pfolio			L51733		+77	-
European Multinational Pfolio			DM52.80		+0.11	-
Global Multinational Pfolio			Ecu24.22		+0.06	-
Global Multinational Pfolio			$26.07		+0.11	-
Global Multinational Pfolio			£15.85		+0.1	-
Global Multinational Pfolio			L47111		+52	-
Global Multinational Pfolio			DM47.50		+0.08	-
US Growth Companies			$17.80		—	-
US Growth Companies			£10.79		+0.02	-
US Growth Companies			L31801		-106	-
US Growth Companies			DM32.33		-0.09	-
US Real Estate Securities			$17.09		—	-
US Real Estate Securities			£10.47		+0.07	-
US Real Estate Securities			L30885		-103	-
US Real Estate Securities			DM31.40		-0.09	-
BAII Asset Management Ltd						
10 Piccadilly, London W1V 0EE 0171 734 3700						
Intermarket Wkly Oct 31 F			$877.40		+0.65	-
Bank Von Ernst & Cie AG						
Marktgasse 63/65, 3001 Berne, Switzerland 0041 313291111						
UK Equity			£18.86		—	-
UK Smaller Co's Eqty			£27.80		—	-
Nth American Equity			$17.80		—	-
US Smaller Co's Eqty			$25.67		—	-
Pacific Basin Equity			$10.19		—	-

	Init Charge	Notes	Selling Price	Buying Price	+ or -	Yield Gr's
Fleming Group - Contd.						
Fleming Flagship Series II (Daily Dealing)						
DM Class F			DM12.714		—	3.08
FFr Class F			FFr65.739		+0.01	3.03
ITL Class F			L23295		+3.00	5.65
£ Class F			£5.495		—	6.97
US$ Class F			$12.656		—	5.36
Single Fund Sicav						
International Equity F	5	CE	$11.08	11.82	+0.35	-
Foreign & Colonial Emerging Markets Ltd (u)						
Exchange Ho, Primrose St, Lon, EC2A 2NY 0171-628 1234						
F&C Emerging Markets						
Argentinian Inv Co F			$24.33		+0.26	-
Brazilian Inv Co SICAV F			$40.98		+1.18	-
Global Emerging Mkts Inv Co SICAV F			$10.57		+0.24	-
Latin Amer Inv Co SICAV F			$11.69		+0.29	-
Mexican Inv Co SICAV F			$30.15		+0.51	-
Foreign & Colonial Portfolios Fd Sicav(u)						
47 Boulevard Royal, L-2449 Lux 01534 504041						
Am Smlr Cos Eq F			$47.38		—	-
Emerging Asian Eq F			$13.18		+0.01	-
Sterling Bond F			£10.04		—	-
Sterling Distribution F	5		£8.56		-0.05	-
Frontrunner I (u)						
672 rue de Neudorf, Luxembourg 00 352 4367350						
European Value Fd			Ecu167.05		—	-
Global Bond Fd			DM184.82		—	-
Global Bond Fd			DM162.30		—	-
Sterling Bond Fd			£207.63		—	-
Danish Bond Fd			DKr197.35		—	-
Swedish Bond Fd		3	SKr138.38		—	-
German Bond Fd			DM110.32		—	-
Dollar Bond Fd		3	$106.00		—	-
Scandinavian Value Fd			Ecu274.60		—	-
Far East Value Fd			$48.82		—	-
North American Value Fd		5	$111.34		—	-
Danish Kroner Reserve			DKr112.69		—	-
Swedish Kroner Reserve			SKr118.85		—	-
German Mark Reserve			DM109.45		—	-
US Dollar Reserve		3	$100.71		—	-
ECU Reserve			Ecu112.88		—	-
Norwegian Kroner Reserve			NKr101.46		—	-
Garant 2/1998		3	DM124.29		—	-
Bonus 2/1998		3	DM104.59		—	-

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

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	Selling Price	Buying Price	+ or -	Yield Gross
Premier Life				
1 Rue Emile Bian, Luxembourg — Tx 2809 Tel 4050751				
Davenport Chiltech E Fd	£1.298	1.300	—	-
Manhattan F Pens	£10.949	1.800	—	-
Manhattan S Pens	£9.953	1.010	—	-
Argent Fixed	£16.000	17.130	—	-
Argent Equity Gro	£16.260	17.450	—	-
LX 10	$1.58	2.13	—	-
Professional Investment Consultants				
Premier Lux $	$1.17	1.23	—	-
Premier Lux F	$0.80	0.85	—	-
Royal Life International				
Royal Court, Arbory Rd, Castletown IoM — 01624 821212				
Royal Skandia Life Assurance Ltd (z)				
Skandia Hse, Finch Rd, Douglas, IoM — 01624 611611				
Asia Pacific Securities Corp Ltd				
Asian Convertibles & Income Fd (Cayman)				
NAV Jan 2		$11.16	—	-
Atlantico Investment Ltd				
Atlantis Fund Management (Guernsey) Ltd				
Atlas Management Limited				
Managed	£3.68	10.16	..	-
Aurum Funds				
BAS–EX Currency Fund Plc				
NAV		100481	+1107	-
BAX–EX DBS Currency Fund Plc				
NAV		$109.00	...	-
BEA Associates				
BMP				
Julius Baer Bank & Trust Co Ltd				
Bahia Fund				
Banca Reig. S.A. (Principality of Andorra)				
Banco do Brasil–BB Fund				
Global Atic Inc				
NAV Jan 13	$458.59		..	-
Global Convertible Megatrend				
NAV Nov 30	$722.08		..	-
Global Fund Management S.A.				
The Global Managed Investec Bond Limited				
Global Growth	$1.143	1.201	+0.037	0.00
Managed Fd USD Class	$1.159	1.217	+0.004	0.00
Managed Fd GBP Class	£1.160	1.218	—	0.00
Jupiter Asset Management (Asia) Ltd				
Hong Kong Investment Co Ltd	$0.71		-0.02	-
Pecaper Investment Co Ltd	$0.49		-0.04	-
Jupiter Asset Mngt (Bermuda) Ltd				
Jupiter Hedge	£1.47	1.55	-0.1	-
Jupiter Tyndall Specialist Fund Ltd				
Brazil Class	$1.19	1.26	-0.12	-
Mexico Class	$1.30	1.37	-0.12	-
Global Portfolio (BVI) Management Ltd				
Globalvest Management Co LP				
Goldman Sachs				
KD Offshore Fund, C.V.				
Kenmar Management Limited				
Aquila Growth Dec 31	$25.713		—	-
Columbia Growth Dec 31	$23.624		—	-

OTHER OFFSHORE FUNDS

● MANAGED FUNDS NOTES

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	1997/98 high	low	Volume '000s	Yld Gr's	P/E
Allied Domecq	♣N	563xd		584	407½	3,514	4.3	14.5
Bulmer (HP)	♣†	385xd	-7½	628	365	-	5.1	11.3
Burn St Dst	♣	36½		79½	35½	43	11.6	12.7
Diageo	♣	598½	-6½	639½	424	7,988	3.2	17.0
Glenmorangie A	†	858		1040	840	-	2.0	20.3
B	†	937½	+2½	1140	925	-	0.9	44.8
Highland	♣	285	-2½	380	280	68	3.9	13.2
5¼pc Cnv Bds		90¼		99½	85½	-	6.4	-
Kirin Y		482¼	+1½	654½	418½	-	1.2	-
Matthew Clark	♣	164xd	-2	338	157	548	15.2	5.3
Merrydown	♣	58½	-1	109½	49½	4	6.6	-
Seagram C$		£21⅞		£25⅜	£18	-	1.3	-

BANKS, RETAIL

	Notes	Price	+ or -	1997/98 high	low	Volume '000s	Yld Gr's	P/E
ABN Amro Fl		£12⅛		£15⅛	£9⅞	-	2.6	17.6
ANZ A$		413	-2	516¼	353½	-	4.9	♦
Abbey National	†	1152	-28	1200	710	2,928	3.0	18.9
Alliance & Leicester	♣	842	-1	870	532½	1,422	2.4	19.7
Allied Irish IE	♣†	616	-1½	628½	388½	-	2.9	18.0
Anglo Irish IE	♣†	124xd		128	70½	230	3.2	18.4
Asahi Y		288¼	+5½	538	181	-	1.3	-
Banco Bil Viz Pta		£16⅛	+⅛	£17¼	£9⅝	-	1.5	-
Banco Sant Pta		£21⅛	+⅛	£22⅛	£10⅛	-	1.9	22.7
Bk Ireland IE	♣†	937	-8	961	517½	-	2.2	20.5
Bank Scotland	♣†	589½	+9½	608	291½	5,371	1.9	16.3
9¼pc Pf		149½	+⅛	151¼	116⅛	28	7.7	-
[illegible]								

BREWERIES, PUBS & REST

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CONSTRUCTION

[illegible]

CONSTRUCTION - Cont.

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Cont.

[illegible]

EXTRACTIVE INDUSTRIES - Cont.

[illegible]

FOOD PRODUCERS

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

ENGINEERING, VEHICLES

[illegible]

HEALTH CARE - Cont.

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

HOUSEHOLD GOODS & TEXT

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

MEDIA - Cont.

PHARMACEUTICALS

RETAILERS, GENERAL - Cont.

TRANSPORT - Cont.

AIM - Cont.

OTHER INVESTMENT TRUSTS

PROPERTY

WATER

SUPPORT SERVICES

AMERICANS

AIM

OIL EXPLORATION & PRODUCTION

INVESTMENT COMPANIES

CANADIANS

OIL, INTEGRATED

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
Anglo Am Ind R		£23¼	—	*£27¾	£21⅝	—	2.9	◆
Barlow	‡	£9½	—	£9⅝	£4½	—	3.2	◆
Gold Flds Prop R		117	+3½	187	110½	—	7.2	8.2
SA Brews	†	£14⅛	+⅜	£23⅝	£13⅝	—	2.8	—
Standard Bank		£27⅛	+1½	£30	£22½	—	1.9	—
Tiger Oats		815		1180	780	—	2.3	◆
Tongaat-Hulett		755	+3¾	780	719½	—	2.3	◆

TRADED INDEX SECURITIES

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
FTSE 100 TRANS		5210.0d	—	5527.0d	5472	—	—	-

OTHER FINANCIAL

LEISURE & HOTELS

PROPERTY - Cont.

SUPPORT SERVICES - Cont.

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 Index constituents and reserves marked † in the Trading Volume table on the LSE page, last trade prices at or prior to 4:30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for those particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these *foreign securities are converted into sterling from latest available* local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on EMR 'Headline Earnings' *formula.*

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ◆ *Figures or report awaited*
- ♥ Rule 2.1(a)(v) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ☨ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ *Unregulated collective investment scheme.*

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
k Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1996-97.
G Assumed yield after pending scrip and/or rights issue
H Yield based on prospectus or other official estimates for 1997.
K Yield based on prospectus or other official estimates for 1996
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1997-98.
R Dividend is paid in whole or part as a FID (Foreign Income Dividend)
S Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xd ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1495 a year for each security shown, subject to the Editor's discretion

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MEDIA

TOBACCO

TRANSPORT

LONDON STOCK EXCHANGE

Footsie struggles in spite of news of big merger

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

London's equity market gave a muted response to news of a potential merger involving one of the UK's biggest pharmaceutical companies, SmithKline Beecham.

The news initially sent the share price of SmithKline Beecham and other pharmaceutical stocks spiralling up to new all-time records, before a late slide left SmithKline pennies easier on balance. Stripping out the drug stocks, the FTSE 100 index would have shown a loss throughout the session.

In the event, the index finished the day 4.6 higher at 5,278.2, still well short of its all-time closing high, 5,330.8, and 89.1 below its intra-day record.

The index hit those records in early October, just before the turmoil that engulfed Asian currency and stock markets.

A clearer indication of the overall state of the market was provided by the FTSE 250 which, although never under any great selling pressure, was in negative territory all day, eventually closing 11.9 down at 4,820.9.

The market's smaller stocks were similarly restained, with the FTSE SmallCap index closing 0.4 easier at 2,382.2.

Stories that SmithKline Beecham had been discussing a merger with American Home Products, the third biggest of the US drugs groups, were circulating in the market late last week.

Confirmation that talks had taken place saw SmithKline Beecham shares erupt, along with those of similar drug stocks such as Zeneca, Glaxo Wellcome and Nycomed, as investors decided the move heralded another round of consolidation in the pharmaceuticals industry.

Between them, Zeneca and Glaxo Wellcome accounted for a gain of around 10 Footsie points. On Monday, the drug stocks were responsible for all but half a point of the index's gain of 10.5.

Outside the drugs companies, it was mostly a gloomy day in the market, with many engineering and other exporting stocks initially weakened by an early upward move by sterling.

However, later in the day, sterling slipped back below the DM3 level after some cautious words from the governor of the Bank of England.

Footsie fell away to record a 23.0 fall early in the session, as big institutions refused to get drawn into paying high prices for stock, preferring instead to book profits in some of the market's recent winners.

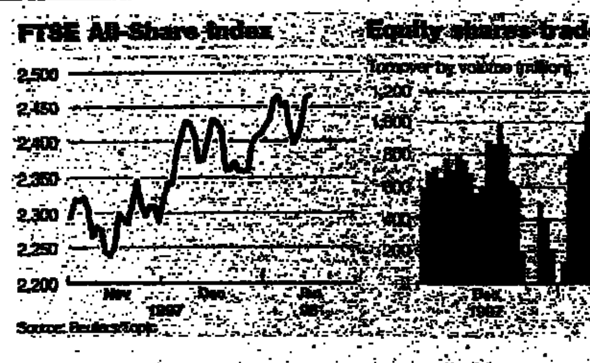
Asian stock markets, which have tended to give a lead to European markets in recent weeks, looked generally more secure yesterday morning.

Footsie's winners included Cable & Wireless, whose Hong Kong subsidiary is to receive a big cash compensation payment for relinquishing its exclusive licence over international calls.

On the downside, Prudential took a pasting after some disappointing new business figures from Jackson National, its US life division.

Turnover continued at relatively high levels, eventually reaching 1.1bn shares, boosted by a placing of 54m shares in Elementis.

FTSE All-Share Index



Equity shares traded

Source: Reuters/Topic

Indices and ratios

FTSE 100	5278.2	+4.6	FT 30	3297.4	-14.9
FTSE 250	4820.9	-11.9	FTSE Non-Fins p/e	20.55	20.52
FTSE 350	2528.6	+0.7	FTSE 100 Fut Mar	5300.0	+7.0
FTSE All-Share	2468.11	+0.57	10 yr Gilt yield	6.15	6.16
FTSE All-Share yield	3.14	3.14	Long gilt/equity yld ratio	1.97	1.97

Best performing sectors		Worst performing sectors	
1 Health Care	+2.3	1 Leisure & Hotels	-1.5
2 Extractive Inds	+1.8	2 Life Assurance	-1.4
3 Pharmaceuticals	+1.2	3 Chemicals	-1.4
4 Household Goods & Texts	+1.2	4 Paper, Pckg. & Pcint	-1.3
5 Telecommunications	+1.0	5 Oil Exploration	-1.3

Beecham blows hot and cold

By Peter John, Martin Brice, Joel Kibazo and Melanie Senior

Confirmation by SmithKline Beecham that it has been in talks with American Home Products of the US sent the shares racing ahead before they fell back to where they had started the day.

At one stage SmithKline shares were up more than 8 per cent on the prospect they could represent equity in the world's biggest drugs company.

At its highest point, the market capitalisation was head to head with Merck's and above the valuation of Pfizer and Novartis.

Analysts saw potential cost savings to match those generated by the merger between Glaxo and Wellcome a couple of years ago.

However, further consideration raised questions on how a merger would be conducted and what would happen to the listing.

Peter Cartwright of Williams de Broe said that when Beecham, the manufacturer of Lucozade and flu powders, merged with SmithKline of the US valuations were equalised and the same could happen this time. That would imply a fall in SmithKline and a rise in AHP, he said.

SmithKline is already 40 per cent owned by US shareholders. With the prospect of a sharply increased US equity holding, the impact of strong sterling on profits and a non-British chief executive, there might be little rationale for the new company to be listed in the UK.

One index fund manager said UK institutions would sell heavily if the listing changed, but there would be a rapid switch into the US.

The shares were on a prospective rating of more than 40 times earnings at one point, compared with a sector p/e of 30. From being above 800p the stock fell to close 3 off at 743p.

The prospect of corporate activity in the sector sent Glaxo Wellcome up 30 to £16.69 and Zeneca up 60 to £23.57.

Sterling casualties

Although the pound dipped below the DM3 level, the possibility of its ongoing strength continued to take its toll on manufacturing exporters, which figured prominently in the list of leading Footsie fallers. Many had also suffered recently because of the Asian crisis.

Foremost among the fallers was Smiths Industries, which has only about 25 per cent of sales in the UK. The shares lost 25 to 730p. Siebe, which was marked down strongly after recent strong results from Honeywell of the US, continued to suffer and was off 23 at £10.29.

LucasVarity fell 8¼ to 198¾p as Guaranty Nominees, the US investor, reduced its stake by about 1 percentage point. It retains a 24 per cent holding.

The markdown spread beyond engineering, with Blue Circle off 6 to 317½p while British Airways declined 8¼ to 519p.

Outside the Footsie, Weir Group, which has about 20 per cent of sales in Asia, was the worst performer in the FTSE 250 as the shares fell 21 to 228p.

PowerGen, one of the key defensive plays in the London market, received support from Crédit Lyonnais Laing, which believes the stock provides the best value in the sector.

The broker says that, although the electricity sector rose more than 17 per cent last year, the government's decision to wave through Pacificorp's bid for the Energy group provides more momentum. The shares rose 24 to 873p.

Nycomed, the pharmaceuticals group, jumped 162 to £23.97 ahead of presentations to brokers over the next fortnight.

Early gains among tobacco stocks were eroded following heavy selling of the US rivals. Sanford Bernstein, the US broker, said there was only a 60 per cent chance of a comprehensive settlement between the tobacco companies and Congress, down from 80 per cent earlier. BAT Industries closed a penny off at 579p.

In telecoms, Cable & Wireless gained 7¼ to 508¼p following news of a lucrative compensation package for Hongkong Telecom.

The territory's dominant telecoms operator has agreed to give up its monopoly on international telecom services six years earlier than expected in exchange for a compensation package including HK$6.7bn in cash.

Cable & Wireless owns 54.2 per cent of Hongkong Telecom and derives around 65 per cent of its profits from the company.

"Holding on to an exclusive licence was always going to be difficult, so Cable & Wireless has done well to get this kind of compensation," said one analyst.

BT in demand

Elsewhere in the sector, British Telecommunications was in demand, the shares appreciating 8¾ to 550p, while Orange stood out among the mobile operators, with the shares hardening 4½ to 278¼p.

The impact of the government's plans for education continued to provide impetus to training companies, with Northern Recruitment, the recruitment consultancy, up 11 to 197½p.

Nord Anglia, the teaching company, gained 21 to 308½p while Lorien, the information technology recruitment group, gained 10 to 587½p.

SIG, the builders' merchants, beat the decline in the construction sector and was firmer at 209p following an upgrade by the building team at Merrill Lynch.

They shifted their stance from "neutral" to "accumulate" following the 20 per cent decline in the stock in the past month.

Jarvis was the best performer in the FTSE 250 as the stock gained 25½ to 408p after the track maintenance group announced two new deals. The company announced that it had won a contract from Royal & Sun-Alliance worth £26m over three years.

Although most of the share price rise came in early trading, the midday announcement of an agreement with Railtrack was said to be more important.

Standard Chartered rose 20 to 580p after the bank's Malaysian unit said it did not see any big drop in its loans quality despite the slowing economy. Also, some analysts reiterated their "buy" rating on HSBC on a 12-month view and the shares bounced 34 to £14.54.

Supermarket chain Somerfield rose 4 to 241½p after it posted interim figures in line with market expectations.

Stationery retailer Partners Holdings fell 7¼ to 52¾p after the group announced a 3.7 per cent drop in like-for-like sales.

Kenwood Appliances slipped 6½ to 127½p following the resignation of finance director Kieran Moloney, to be succeeded by Graham Wickenden.

FT 30 INDEX

	Jan 20	Jan 19	Jan 16	Jan 15	Jan 14	Yr ago	*High	*Low
FT 30	3297.4	3312.3	3327.0	3301.1	3288.9	2877.2	3430.3	2668.8
Ord. div. yield	3.35	3.37	3.37	3.40	3.44	4.1	4.22	3.29
P/E ratio net	21.05	21.49	21.54	21.31	21.09	17.96	22.33	15.80
P/E ratio nil	20.87	21.20	21.24	21.02	20.81	17.19	22.02	15.71

FT 30 since compilation: High 3430.3 [illegible] Low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9	10	11	12	13	14	15	16	High	Low
3312.1	3299.7	3300.6	3299.8	3291.5	3291.6	3294.5	3293.1	3288.1	3312.1	3283.5

	Jan 20	Jan 19	Jan 16	Jan 15	Jan 14	Yr ago
SEAQ bargains	68,959	68,959	75,277	56,639	52,949	48,323
Equity turnover (£m)†	-	NA	2570.6	2502.3	2147.7	1033.4
Equity bargains†	-	NA	56,774	48,994	42,932	25,451
Shares traded (mil)†	-	NA	788.5	725.3	627.8	415.5

†Excluding intra-market and overseas turnover but including Crest turnover. © FTSE International Limited 1998. All rights reserved. *For 1997/98.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	800	Total Highs	172	Total contracts	n/a
Total Falls	887	Total Lows	83	Calls	n/a
Same	1,546			Puts	n/a

Jan 20 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	5297.0	5300.0	+7.0	5320.0	5272.0	10792	62517
Jun	-	5358.0	+7.0	-	-	0	346

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	-	4907.0	-10.0	-	-	0	6190

FTSE 100 INDEX OPTION (LIFFE) (*5271) £10 per full index point

[illegible]

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

TRADING VOLUME

Major Stocks yesterday

[illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1997/98 High	Low	Stock	Closing price p	+or-
9	Nil	28/1	3pm	¼pm	Calluna	1pm	

pm premium.

FTSE GOLD MINES INDEX

[illegible]

FTSE Actuaries Share Indices — The UK Series

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FTSE Actuaries Industry Sectors

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Hourly movements

[illegible]

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FTSE INTERNATIONAL

WORLD STOCK MARKETS

Highs & Lows shown on a 52 week basis

EUROPE

AUSTRIA (Jan 20 / Sch)

BELGIUM/LUXEMBOURG (Jan 20 / Frs.)

CZECH REP (Jan 20 / Koruna)

DENMARK (Jan 20 / Kr)

FINLAND (Jan 20 / Mks)

FRANCE (Jan 20 / Frs.)

GERMANY (Jan 20 / Dm)

GREECE (Jan 20 / Drachma)

ITALY (Jan 20 / Lire)

NETHERLANDS (Jan 20 / Fls.)

NORWAY (Jan 20 / Kroner)

POLAND (Jan 20 / Zloty)

PORTUGAL (Jan 20 / Escudo)

SPAIN (Jan 20 / Pts.)

SWEDEN (Jan 20 / Kronor)

SWITZERLAND (Jan 20 / Frs.)

TURKEY (Jan 20 / Tk Lira)

PACIFIC

JAPAN (Jan 20 / Yen)

AUSTRALIA (Jan 20 / Aus$)

HONG KONG (Jan 20 / H.K.$)

INDONESIA (Jan 20 / Rupiah)

MALAYSIA (Jan 20 / MYR)

NEW ZEALAND (Jan 20 / NZ $)

SINGAPORE (Jan 20 / S$)

SOUTH KOREA (Jan 20 / Won)

TAIWAN (Jan 20 / TW $)

THAILAND (Jan 20 / Baht)

NORTH AMERICA

CANADA

TORONTO (Jan 20 / Can $)

MONTREAL (Jan 20 / Can $)

AFRICA

SOUTH AFRICA (Jan 20 / Rand)

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	MONDAY JANUARY 19 1998 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	FRIDAY JANUARY 16 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (73)	207.99	2.6	188.53	169.40	198.60	207.10	1.7	3.87	202.68	183.57	165.25	192.53	203.59	243.87	190.26	219.04
Austria (23)	186.44	1.3	169.00	151.85	178.03	177.89	1.8	1.86	184.09	166.73	150.10	174.87	174.73	213.59	175.14	185.81
Belgium (26)	257.25	0.3	233.19	209.53	245.64	240.44	0.9	2.87	256.36	232.19	209.02	243.51	238.38	263.33	227.73	230.08
Brazil (30)	223.60	3.3	202.68	182.12	213.51	460.68	3.3	1.79	216.37	195.97	176.41	205.53	446.03	322.44	184.94	209.49
Canada (121)	205.19	0.9	185.99	167.12	195.93	213.54	0.9	1.85	203.40	184.22	165.83	193.20	211.56	233.66	178.27	201.62
Denmark (32)	461.58	0.4	418.40	375.94	440.75	439.24	1.0	1.17	459.67	416.32	374.78	436.63	435.07	484.94	348.27	358.89
Finland (26)	286.98	0.3	260.14	233.74	274.03	334.38	0.9	1.88	286.01	259.04	233.19	271.67	331.42	349.43	243.25	257.00
France (81)	232.70	-0.1	210.94	189.53	222.20	224.52	0.4	2.40	233.01	211.04	189.98	221.33	223.67	246.23	209.81	214.87
Germany (58)	226.80	1.7	205.58	184.72	216.56	216.56	2.2	1.37	223.03	202.00	181.85	211.86	211.86	243.67	184.23	189.40
Hong Kong, China (66)	308.68	7.2	279.80	251.41	294.75	308.56	7.2	5.20	287.99	260.84	234.81	273.56	286.04	580.03	262.93	514.25
Indonesia (27)	41.25	-4.6	37.39	33.59	39.38	254.29	9.5	2.65	43.25	39.17	35.26	41.08	232.17	254.90	29.44	242.51
Ireland (16)	414.24	-0.6	375.49	337.39	395.55	423.99	-0.2	2.34	416.68	377.39	339.73	395.80	424.72	416.68	316.20	329.89
Italy (53)	124.47	-1.2	112.82	101.37	118.85	167.93	-0.8	1.46	126.01	114.13	102.74	119.69	169.35	126.01	83.01	95.95
Japan (481)	100.72	2.5	91.30	82.03	96.17	82.03	2.4	0.97	98.24	88.97	80.09	93.31	80.09	141.12	88.52	120.10
Malaysia (107)	153.04	10.7	138.72	124.65	146.13	245.33	9.9	2.96	138.29	125.25	112.75	131.35	223.17	660.85	113.56	617.58
Mexico (26)	1643.42	2.4	1489.68	1338.53	1569.26	14693.58	2.1	1.63	1605.01	1453.67	1308.61	1524.58	14386.17	1901.98	1319.05	1360.83
Netherlands (19)	408.41	0.5	370.20	332.64	389.98	385.85	1.1	2.18	406.28	367.97	331.25	385.92	381.76	440.67	326.45	331.41
New Zealand (14)	75.37	1.8	68.32	61.39	71.97	67.89	1.8	4.55	74.02	67.04	60.35	70.31	66.75	96.47	71.49	95.46
Norway (38)	297.17	1.1	269.37	242.04	283.76	305.15	1.4	1.98	294.05	266.33	239.75	279.32	300.91	374.64	281.62	315.26
Philippines (22)	74.51	7.4	67.54	60.69	71.15	152.34	6.4	1.29	69.38	62.84	56.57	65.91	143.15	214.07	57.54	206.06
Singapore (42)	186.70	7.7	169.23	152.06	178.27	150.22	8.6	2.13	173.34	156.99	141.33	164.65	138.35	448.01	144.01	436.41
South Africa (43)	246.06	1.3	223.04	200.41	234.96	267.72	1.5	3.16	242.89	219.99	198.03	230.72	263.87	370.12	227.66	326.14
Spain (35)	283.20	-0.6	256.71	230.66	270.42	334.00	0.0	2.08	284.78	257.93	232.19	270.51	334.05	284.78	206.12	228.16
Sweden (46)	464.62	-0.5	421.16	378.42	443.66	553.58	0.9	1.87	462.03	418.46	376.70	438.87	548.35	538.94	405.00	426.03
Switzerland (31)	334.87	0.8	303.36	272.58	319.56	311.03	1.1	1.08	332.17	300.85	270.83	315.53	307.56	343.44	231.69	235.11
Thailand (36)	21.38	17.3	19.38	17.40	20.39	43.85	17.2	6.56	18.21	16.49	14.84	17.29	37.41	103.44	13.10	98.38
United Kingdom (212)	337.48	0.2	305.91	274.87	322.25	305.91	0.2	3.22	336.93	305.16	274.71	320.04	305.16	337.99	271.72	282.01
USA (638)	392.11	0.0	355.42	319.36	374.41	392.11	0.0	1.59	392.11	355.13	319.70	372.46	392.11	401.22	299.79	316.26
Americas (816)	355.42	0.1	322.17	289.48	339.38	300.09	0.1	1.61	355.10	321.62	289.52	337.30	299.82	365.75	274.59	289.83
Europe (899)	290.39	0.3	263.22	236.52	277.28	279.69	0.7	2.31	289.41	262.12	235.97	274.91	277.83	296.25	236.09	241.24
Nordic (147)	410.95	0.8	372.51	334.71	392.41	427.56	1.0	1.76	408.71	370.17	333.23	388.23	423.38	464.93	355.77	372.03
Pacific Basin (871)	108.84	3.1	98.66	88.65	103.93	90.02	3.0	1.64	105.57	95.61	86.07	100.28	87.42	158.99	95.32	141.43
Euro-Pacific (1570)	184.57	1.3	167.31	150.33	176.24	161.37	1.4	2.07	182.25	165.06	148.59	173.11	159.06	209.12	172.03	182.98
North America (760)	380.11	0.0	344.55	309.59	362.96	380.04	0.0	1.60	379.97	344.14	309.80	360.92	379.89	389.57	292.34	309.44
Europe Ex. UK (487)	258.94	0.4	234.71	210.90	247.25	258.42	0.9	1.77	257.80	233.49	210.19	244.88	256.06	267.07	210.83	214.40
Pacific Ex. Japan (390)	186.71	5.3	169.25	152.07	178.29	189.11	5.1	4.14	177.28	160.57	144.54	168.40	179.91	320.65	161.31	319.60
World Ex. US (1790)	187.63	1.3	170.08	152.82	179.17	167.37	1.4	2.07	185.24	167.78	151.03	175.96	164.97	212.89	175.30	186.25
World Ex. UK (2217)	245.54	0.7	222.57	199.99	234.46	224.80	0.8	1.68	243.87	220.88	198.83	231.65	223.09	262.69	211.16	222.37
World Ex. Japan (1948)	329.87	0.4	299.01	268.67	314.99	328.20	0.5	1.95	328.66	297.67	267.97	312.19	324.66	344.35	271.90	282.58
The World Index (2429)	253.32	0.6	229.63	206.33	241.89	232.10	0.7	1.83	251.74	228.00	205.25	239.12	230.47	268.47	216.61	227.45

 CONSTITUENT CHANGE 20/1/98: Name change: Columbia Gas System to Colombia Energy Group (USA).

Emerging markets: IFC investable indices

Jan 19

Base values: Dec 1988=100 except those noted ... Latest indices were unavailable for this edition.

4 pm close January 20

NEW YORK STOCK EXCHANGE PRICES

1997/98 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close

- A -

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1997. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. ss-stkss. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.

Dealings suspended.

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Jan 16	Jan 15	Jan 14	1997/98 High	1997/98 Low	Since compilation High	Since compilation Low
Industrials	7753.55	7691.77	7784.69	8259.31 (6/8/97)	6391.69 (11/4/97)	8259.31 (6/8/97)	41.22 (8/7/32)
Home Bonds	105.27	105.45	105.16	105.48 (15/1/98)	101.09 (14/4/97)	105.48 (15/1/98)	54.99 (1/10/81)
Transport	3289.56	3228.95	3229.41	3359.27 (15/10/97)	2222.07 (2/1/97)	3359.27 (15/10/97)	13.23 (8/7/32)
Utilities	264.58	264.47	266.25	272.81 (30/12/97)	209.47 (25/4/97)	272.01 (30/12/97)	16.53 (8/7/32)

DJ Ind. Day's High 7946.47 (7803.87) Low 7687.04 (7651.66) (Theoretical¢)
Day's high 7803.12 (7783.94) Low 7696.01 (7686.54) (Actual¢)

Standard and Poors	Jan 16	Jan 15	Jan 14	1997/98 High	1997/98 Low	Since compilation High	Since compilation Low
Composite‡	961.51	950.73	957.94	983.79 (5/12/97)	737.01 (2/1/97)	983.79 (5/12/97)	4.40 (1/6/32)
Industrials♥	1113.42	1105.90	1114.30	1146.82 (7/10/97)	865.42 (11/4/97)	1146.82 (12/12/97)	3.62 (30/6/32)
Financial♥	114.81	113.29	114.11	120.83 (8/12/97)	88.75 (2/1/97)	120.83 (8/12/97)	7.13 (4/9/74)
Others							
NYSE Comp.	503.67	497.95	501.35	514.31 (5/12/97)	389.47 (11/4/97)	514.31 (5/12/97)	4.64 (25/4/42)
Amex Comp	663.98	655.54	658.64	721.90 (7/10/97)	541.20 (28/4/97)	721.90 (7/10/97)	524.20 (16/7/98)
NASDAQ Comp	1562.88	1547.06	1548.76	1745.85 (9/10/97)	1201.00 (2/4/97)	1745.85 (9/10/97)	54.87 (3/10/74)
Russell 2000	426.25	421.75	421.93	465.21 (13/10/97)	335.85 (25/4/97)	465.21 (13/10/97)	123.36 (7/12/83)

■ RATIOS

	Jan 16	Jan 9	Jan 2	Year ago
Dow Jones Ind. Div. Yield	1.77	1.81	1.72	1.95
	Jan 14	Jan 7	Dec 31	Year ago
S & P Ind. Div. yield	1.50	1.49	1.49	1.85
S & P Ind P/E ratio	25.88	25.98	26.04	23.00

US DATA

■ MARKET ACTIVITY

● Volume (million)	Jan 16	Jan 15	Jan 14
NYSE	670.080	524.734	607.880
Amex	29.889	21.135	22.582
NASDAQ	707.859	608.241	700.379

NYSE	Jan 16	Jan 15	Jan 14
Issues Traded	3,453	3,424	3,425
Rises	2,131	1,316	1,867
Falls	819	1,586	1,061
Unchanged	503	522	497
New Highs	171	115	135
New Lows	30	52	36

■ NYSE TRADING ACTIVITY — Volume : 670,080,000

■ ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Boeing	8,782,200	43⅝	-¼
Micron Tech	7,276,800	28¾	-2⅞
Ph Morris	5,526,800	45¼	+⅛
Compaq	5,248,300	59⅛	-1
Gen Elect	4,428,300	73½	+⅞
AT & T	4,238,000	65⅛	+½
Stat Casino	3,654,600	15⅛	+4⅛
Chrysler Cp	3,518,600	36	+1⅛
Tel Brasileir	3,364,700	105⅝	+4⅛
IBM	3,301,200	105	+1½

■ BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Stat Casino	15⅛	+4⅛	+38.8
Harrahs Ent	21⅝	+2⅛	+11.8
Blount B	25⅝	+2⅛	+9
Boston Scien	46⅝	+3⅞	+8.9
Downs			
Amer Residntl	10¼	-3⅞	-26.5
Micron Tech	28¾	-2⅞	-8.9
Briggs Strat	44½	-2⅞	-5.7
Crdl Newsp	65½	-3⅛	-4.9

■ NASDAQ TRADING ACTIVITY — Volume :707,859,000

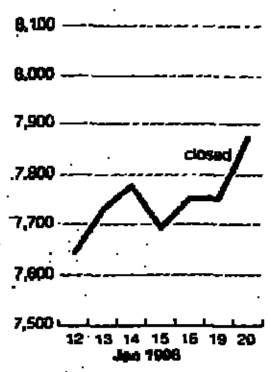
■ ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Sun Microsys	18,898,000	45⅝	+2⅛
Corp Express	14,812,900	9¾	+1⅝
Intel Corp	14,568,900	74⅞	-½
Nordstrom	12,008,000	44⅞	-4⅝
Oracle Corp	11,803,800	19⅛	+⅛
Applied Matrl	10,435,800	29¾	-⅞
Ascend Com	10,110,700	30⅛	+1½
Worldcom	9,778,500	31⅞	+⅞
Microsoft	8,899,600	136¼	+2⅞
Microchip Tch	8,335,800	21⅝	-5⅝

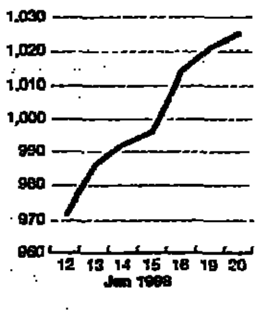
■ BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Milestone Sc	22½	+3¾	+20
Concord Oper	22¾	+3⅛	+17.3
Orcala	25⅞	+3¼	+14.4
Arrow Intl	37¼	+4¼	+12.8
Downs			
Healthcare Com	7⅞	-5⅞	-43.1
Intelliquest	9⅝	-4	-30.2
Microchip Tch	21⅝	-5⅝	-21.2
Sterling Bk Cl	45⅞	-6⅛	-11.8

Dow Jones



FTSE Eurotop 300



JAPAN

	Jan 20	Jan 19	Jan 16	1997/98 High	1997/98 Low	Since compilation High	Since compilation Low
Nikkei 225	16366.53	16252.04	16046.45	20681.1	14664.4	38915.9	85.25

Day's high: 16430.27. Day's low: 16077.22.

■ TOKYO TRADING ACTIVITY — Volume : 567,000,000

■ ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Np Steel Cp	15,043,000	179	-1
Daiichi Kangyo	10,934,000	902	-42
Tomen Corp	10,911,000	150	+40
Sakura Bank	10,710,000	457	-8
Fuji Bank	8,369,000	703	+3
Yamaichi Sec	7,950,000	1	
Daiwa Secs	7,584,000	501	+7
Kocktu Corp	7,148,000	249	+29
NKK Corp	6,783,000	105	-8
Sumo Mtl Ind	6,668,000	178	-6

■ BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Nippon Lace	48	+18	+60
Toa Steel	95	+30	+46.2
Kanematsu	160	+44	+37.9
Tomen Corp	150	+40	+36.4
Tokai Kanko	79	+16	+25.4
Tayo Kotsu	99	+17	+21
Downs			
JGC Corp	242	-28	-10.4
Asahi Tec Cp	195	-17	-8

FRANCE

	Jan 20	Jan 19	Jan 16	1997/98 High	1997/98 Low	Since compilation High	Since compilation Low
CAC 40	3008.34	2986.95	2976.09	3094.01	2256.97	3094.01	984.61

Day's high: 3013.60. Day's low: 2983.13.

■ PARIS TRADING ACTIVITY — Volume : 309,436,300

■ ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Rho-Pmc A	1,415,694	302.1	+7
Euro Disney	1,054,748	7.6	+0.25
Fr Telecom	857,806	239.1	+1.1
AGF	759,690	318.5	+0.3
Usinor	537,832	82.5	+0.15
Axa-UAP	506,833	474	+4.7
Elf Aqtne	486,908	647	+11
Total B	483,081	624	+11
Lagardere	398,574	216.5	+14.5
BNP	380,214	295.1	+3.7

■ BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Arbel	53.8	+5.8	+12.1
Info Realite	248.4	+22.9	+10.2
Immob Hotel	35.25	+3.25	+10.2
Georex	15.0	+1.35	+9.9
Downs			
Paluel Marmt	446.2	-73.8	-14.2
Gebo Inds	827.0	-53.0	-6.0
Sole (La)	190.0	-10.0	-5.0
Grp Valfond	82.65	-4.35	-5.0

GERMANY

	Jan 20	Jan 19	Jan 16	1997/98 High	1997/98 Low	Since compilation High	Since compilation Low
DAX	4307.91	4284.94	4184.46	4438.93	2848.77	4438.93	931.18

Day's high: 4307.91. Day's low: 4270.85.

■ FRANKFURT TRADING ACTIVITY — Volume : 17,072,427

■ ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Deutsche Bk	898,523	113.3	-1.8
Siemens	669,851	109.3	+1.95
Bayer	579,265	65.75	-0.46
Dt Telekom	574,489	31.9	+0.15
Commzbnk	548,615	66.7	-0.1
BASF	532,812	62.68	-0.32
Veba	457,866	126	+1.8
Dresdner Bk	435,096	77.4	-0.9
Linotype Rg	391,369	33.1	-1.35
Hoechst	330,655	68.3	+0.25

■ BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Marschollek	530.0	+30.0	+6.0
Beta Systems	180.0	+8.0	+4.7
Rheinmetall Pf	30.5	+1.3	+1.5
Merck	61.5	+2.5	+4.2
Downs			
Schneider	250.0	-41.0	-14.1
Babcka-Dürr	205.0	-17.0	-7.7
Maxx Kliniken	26.2	-1.8	-6.4
Moenus Text	13.6	-0.9	-6.1

UK

	Jan 20	Jan 19	Jan 16	1997/98 High	1997/98 Low	Since compilation High	Since compilation Low
FTSE 100	5278.2	5273.6	5263.1	5330.8	4056.6	5330.8	986.9

Day's high: 5298.6. Day's low: 5253.6.

■ LONDON TRADING ACTIVITY — Volume : 1,095,700,000

■ ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Elementis	109523600	128½	-2
Belgo Grp	49,236,780	7	
Shell T&T	25,180,170	409¼	+3½
Smthkl Bchm	22,670,340	740	-3
BTR	14,433,110	154	
BT	13,410,120	550	+8½
Vodafone	12,967,170	487	-2
Laporte	12,573,380	617½	-16½
Rolls-Royce	11,940,070	192½	+¾
Argos	10,581,500	400	-26

■ BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Dalbynia	9½	+1½	+19.7
Riverview	110	+15	+15.8
Abacus Rct	310	+35	+12.7
Staffware	405	+35	+9.5
Downs			
Blakes Clthg	50½	-11	-17.9
Newmark Vnt	2½	-½	-16.7
Partners Hldg	52½	-7½	-12.5
Westport	2	-¼	-11.1

INDEX FUTURES

■ S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open int.
Mar	968.20	972.00	+3.60	973.70	967.20	106,291	380,965
Jun	-	978.10	-	-	972.50	912	10,685
■ Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	16160.0	16380.0	+160.0	16470.0	16080.0	23,587	172,402
Jun	16050.0	16340.0	+70.0	16430.0	16270.0	10	31,454

■ CAC-40 (200 x index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Jan	2974.0	3022.0	+35.0	3024.0	2966.0	12,889	37,566
Feb	2988.0	3030.0	+35.0	3030.0	2977.5	1,071	7,043
■ DAX							
Mar	4301.0	4334.0	+21.0	4348.0	4290.0	21,864	68,581
Jun	4329.0	4362.0	+27.5	4371.0	4329.0	411	11,355

■ OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Jan	2414.75	2421.50	+1.50	2442.00	2411.00	11,932	16,769
Feb	2425.75	2434.00	+7.25	2452.75	2422.00	5,931	12,069
■ SOFFEX							
Feb	6335.0	6390.0	+41.0	6423.0	6327.0	3,424	19,819
Mar	6394.0	6397.0	+31.5	6403.0	6394.0	46	562

Open interest figures for previous day.

WORLD MARKETS AT A GLANCE

Country	Index	Jan 20	Jan 19	Jan 16	1997/98 High	1997/98 Low	Yield	P/E
Argentina	General	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	18.4
Australia	All Ordinaries	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	19.5
	All Mining	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		
Austria	Credit Aktien	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	13.7
	Traded Index	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		
Belgium	BEL20	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	17.3
Brazil	Bovespa	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	na
Canada	TSE 300	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	19.2
	Metals & Minls	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		
	Composite	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		
	Portfolio	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		
Chile	IGPA Gen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	14.3
China	Shanghai B	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	53.8
	Shenzhen B	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		
Colombia	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	na
Czech Republic	PX 50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	na
Denmark	Copenhagen SE	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	22.8
Egypt	Cairo SE Gen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	na
Finland	HEX General	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	14.6
France	SBF 250	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	17
	CAC 40	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		
Germany	FAZ Aktien	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	21.8
	Commerzbank	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		
	DAX	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		
Greece	Athens SE	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	14.6
	FTSE/ASE 20	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		
Hong Kong	Hang Seng	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	9.1
	HSCC Red Chip	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		
Hungary	Bux	7851.62	7823.21	7639.04	8483.80 6/8/97	4291.30 6/1/97	na	na
India	BSE Sens.	3455.96	3480.86	3382.32	4548.02 5/8/97	3225.24 2/1/97		
	Crisil 500	636.28	641.65	628.93	843.28 5/8/97	615.29 12/12/97	na	na
Indonesia	Jakarta Comp.	448.04	439.02	413.92	740.83 8/7/97	339.53 15/12/97	2.34	14.6
Ireland	ISEQ Overall	4328.29	4304.77	4304.26	4328.29 20/1/98	2725.07 2/1/97	2.02	20.4
Israel	Mishtanim 100	273.55	271.16	(c)	311.76 6/8/97	214.15 2/1/97	na	na
Italy	BCI Comit 30	271.57	267.51	270.70	271.57 20/1/98	155.74 2/1/97	1.65	23.6
	Banca Com Ital	1152.74	1154.14	1148.02	1154.14 19/1/98	680.42 2/1/97		
	Mibtel General	18495.0	18274.0	18368.0	18495.00 20/1/98	10488.09 2/1/97		
Japan	Nikkei 225	16366.53	16252.04	16046.45	20681.10 16/6/97	14664.40 12/1/98	0.91	42
	Nikkei 300	247.86	248.03	242.51	303.71 28/7/97	224.85 12/1/98		
	Topix	1232.88	1231.46	1201.71	1560.28 25/6/97	1120.81 12/1/98		
	2nd Section	1231.39	1216.58	1187.17	1848.25 30/6/97	1160.56 24/12/97		
Jordan	Amman SE	165.48	165.84	(c)	185.48 20/1/98	- -	na	na
Malaysia	KLSE Comp.	586.35	589.08	539.97	1271.57 25/2/97	477.57 12/1/98	2.82	10.9
Mexico	IPC	4698.42	4773.44	4671.24	5369.48 21/10/97	3358.46 2/1/97	1.18	14
Morocco	CASA	667.38	669.04	668.51	689.75 23/4/97	451.98 3/1/97	na	na
Netherlands	CBS TtlRtnGen	1107.8	1103.9	1092.4	1184.60 7/8/97	730.80 2/1/97	2.08	21.7
	CBS All Shr	635.1	632.8	626.2	684.40 7/8/97	429.00 2/1/97		
New Zealand	Cap. 40	2257.45	2236.73	2208.31	2635.48 22/10/97	2162.01 29/10/97	4.05	17.8
Nigeria	SE All-Share	6433.71	6425.57†	6432.05	6433.71 20/1/98	- -	na	na
Norway	Oslo SE Ind	2044.93	2014.49	1994.38	2287.58 22/10/97	1639.03 2/1/97	1.71	14.4
Pakistan	Karachi SE	(a)	1566.60	(c)	2867.88 22/10/97	1341.31 7/1/97	na	na
Peru	Lima Gen	1639.82	1639.90	1639.26	2289.40 10/7/97	1429.70 2/1/97	na	na
Philippines	Manila Comp	1773.86	1771.89	1676.63	3447.60 3/2/97	1518.80 9/1/98	1.44	11.7
Poland	WIG	13380.3	14048.1	13637.6	18339.40 18/2/97	13228.80 12/1/98	0.91	14
Portugal	BVL 30	4139.64	4065.00	4031.97	4139.64 20/1/98	2165.57 2/1/97	1.09	38.3
	PSI 20	9651.90	9472.62	9394.48	9651.90 20/1/98	5152.34 2/1/97		
Russia	RTS	338.32	339.47	334.54	571.66 6/10/97	213.38 6/1/97	na	na
Singapore	SES All-S'pore	384.16	388.00	370.87	573.03 17/2/97	324.92 12/1/98	2.51	13.4
	Straits Times	1296.91	1327.18	1245.28	2271.88 20/1/97	1073.47 12/1/98		
Slovakia	SAX	164.24	164.13	164.30	208.84 21/3/97	162.38 15/1/98	na	na
South Africa	JSE Gold	810.3♥	787.8	807.5	1588.10 27/2/97	670.10 5/12/97	2.6	13.6
	JSE Indl.	7142.5♥	7073.8	6970.4	9314.20 7/8/97	6715.10 12/1/98		
South Korea	KoreaCmpEx**	533.55	528.77	488.10	792.29 17/6/97	350.68 12/12/97	2.24	15.2
Spain	Madrid SE	682.08	675.56	674.11	682.08 20/1/98	434.54 2/1/97	2.2	23
Sri Lanka	CSE All Share	676.80	680.40	685.10	889.70 31/7/97	606.79 2/1/97	na	na
Sweden	AffarsvarldnGen	3006.5	3003.3	2972.5	3316.80 7/8/97	2378.50 2/1/97	1.75	21.5
Switzerland	SMI Index	6397.5	6340.4	6274.0	6397.50 20/1/98	3922.90 7/1/97	1.11	23.9
	SPI General	3963.05	3932.35	3891.12	3972.97 7/1/98	2508.22 6/1/97		
Taiwan	WeightedPr.**	7907.88	7847.62	7799.10	10116.80 26/8/97	6844.75 6/1/97	1.47	21.6
Thailand	Bangkok SET	413.79	420.72	383.01	858.97 22/1/97	339.17 12/1/98	5.55	11.1
Turkey	IMKB Nat 100	3477.93	3513.09	3384.83	3711.40 5/1/98	895.80 2/1/97	1.54	23.1
Venezuela	IBC	7197.52	7337.80†	7357.14	10817.10 17/10/97	6081.99 12/3/97	na	na
Zimbabwe	ZSE Industrial	7768.00	8002.26	(c)	12082.00 5/8/97	6991.51 18/12/97	na	na
WORLD	FT/S&P World($)	(d)	253.32	251.74	268.47 7/10/97	216.61 14/4/97	na	na
	MS Capital Intl$	938.7*	936.4	930.8	981.80 31/7/97	794.50 14/4/97	na	na
CROSS-BORDER	Eurotrack 100	2750.09	2748.12	2689.85	2794.86 7/8/97	1883.80 2/1/97	na	na
	FTSE E100	2365.92	2355.62	2334.81	2377.06 5/1/98	1582.09 2/1/97	na	na
	HSBC JC Drgn	(u)	221.09	206.64	434.83 6/8/97	189.25 12/1/98	na	na
	ING Brngs Emrg	135.70	134.33	130.78	198.81 9/7/97	126.19 12/1/98	na	na

Hungary: Shares supported by a strong dollar and gains in other European markets.
India: Shares finished lower as dealers squared positions ahead of the end of the account.
Indonesia: Shares cheered news that President Suharto would seek a seventh term in office in the March elections.
Ireland: Stock shortages across the market helped push prices higher as dealers reported strong overseas buying interest.
Israel: Shares gained ground on hopes that the central bank will move to reduce interest rates next Monday.
Italy: Closed at a new all-time high, helped by gains in industrial shares that have underperformed during the market's rally.
Japan: Fears of further earnings downgrades following a profits warning from Toshiba held back the gains.
Jordan: Concerns about renewed Iraq-US tensions weighed on shares, dealers said.
Malaysia: Shares pulled back as 3-month interbank rates moved back above 10 per cent for the first time in 6 months.
Mexico: ‡Shares opened weaker as investors fretted about a wider than expected trade deficit for December.
Morocco: Shares traded listlessly in quiet turnover, with many investors keeping a low profile during Ramadan.
Netherlands: Record company Polygram gained more than 5 per cent after Merrill Lynch upgraded the stock to "accumulate".
New Zealand: News that North American and Scandinavian pulp inventories had tumbled in December boosted forestry shares.
Nigeria: Bank shares gained ground, helped by a recent spate of good results.
Philippines: Confidence was unnerved by a volatile Indonesian rupiah and momentum stalled after recent sharp gains.
Poland: Brewing group Zywiec bucked the trend, gaining 10 per cent on news that Heineken intends to up its 31.8 per cent stake.
Portugal: Domestic fund buying helped Portuguese shares to set new highs. Telecoms stocks were strongly in favour.
Russia: Shares drifted sideways, starved of any significant domestic or foreign news.
Singapore: Shares fell despite news Singapore's non-oil domestic exports grew by 13.3 per cent year-to-year in December.
Slovakia: Steel maker VSZ was the only blue-chip stock to trade on the stock exchange floor, closing unchanged at ks680.
South Africa: Banking and gold stocks were strongly in favour, the latter helped by bullion's recovery to $290 per ounce.
South Korea: Hopes of an imminent accord covering worker layoffs and related issues lifted shares in late trading.
Spain: Shares continued their record breaking run, helped by strong domestic buying interest.
Sri Lanka: Selling by domestic retail investors ahead of upcoming plantation IPOs dragged shares lower.
Sweden: Early gains petered out as drug giant Astra lost ground after rising earlier on SmithKline Beecham's talks with AHP.
Switzerland: Shares closed firmer but off the day's highs. Dealers said institutions were sidelined after the recent Asian turmoil.
Taiwan: Strong results from Advanced Semiconductor Engineering's US subsidiary, ASE Test, boosted the electronics sector.
Thailand: Buyers cautious ahead of 4th quarter results from banks and financials which are expected to begin tomorrow.
Turkey: Profit taking seen as investors remained cautious about the political outlook.
Zimbabwe: Shares tumbled on political worries following recent riots in the centre of Harare.

... XETRA-DAX after-hours index: Jan 20 - 4310.83 +20.76. † Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ¢ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock ... during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation. Yields and P/E ratios are based on Datastream Total Market Indices. ‡ Midsession.

NASDAQ NATIONAL MARKET

4 pm close January 20

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
[illegible]							

AMEX PRICES

4 pm close January 20

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
[illegible]							

EASDAQ

EASDAQ is a fully regulated independent pan European Stock Market focused on high growth companies with international aspirations. The shares of companies on the EASDAQ Stock Market can be bought and sold through EASDAQ Members.

Company	Mid price	Change on day	Volume	High	Low
[illegible]					

Prices for 20/1/98. ... Information about EASDAQ can be found on the Web site at: HTTP://WWW.EASDAQ.be ... EASDAQ offices are located in Brussels ... and in London ...

Signs of recovery as calm breaks out

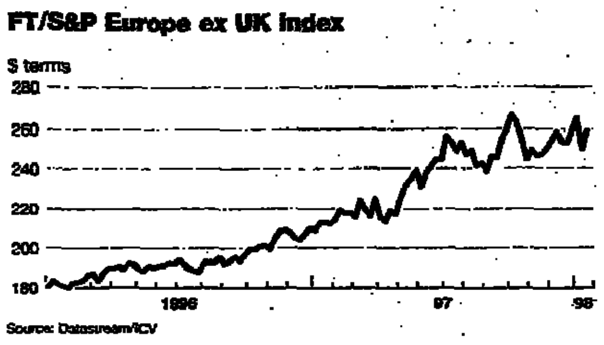
WORLD OVERVIEW

A quieter day in Asia and a subdued return from holiday by Wall Street meant that investors could relax for almost the first time this year, *writes Philip Coggan.*

There were few wild swings in the equity markets; *not even the volatile* Pacific Basin region could produce a 3 per cent movement. But there were some encouraging signs of recovery, such as Tokyo's fifth straight advance.

Brian Marber, the technical analyst, believes that a number of chart signals indicate that the Japanese bear market is over.

FT/S&P Europe ex UK index



Source: Datastream/ICV

Most significant, he says, is a sharp upturn in the number of stocks above their three-month and seven-month averages; this is a classic indicator of a market bottom and occurred on Wall Street in December 1987 following Black Monday.

The main area of concern in Asia continued to be Indonesia where the rupiah dropped below the 10,000-to-the-dollar level, in spite of the recent reform package.

European markets received their customary fillip from a stronger dollar but were given little direction by Wall Street, which followed Monday's holiday with a lacklustre opening.

A widening in the German trade surplus to DM13.1bn in November masked a 3.5 per cent month-on-month fall in exports which might be an early warning of the effect of the Asian crisis. The Dax in Frankfurt gained 0.5 per cent on the day.

Europe has been generally assumed to be protected from the full effect of the Asian downturn because of the momentum behind the domestic economies as they emerge from the period of Maastricht-induced austerity.

ABN-Amro Hoare Govett's latest European strategy document is overweight the "peripheral" countries – Italy, Spain, Switzerland, Ireland and Portugal – which will benefit from short rate convergence in 1998, once the cross-rates for monetary union are agreed in May.

But the heavy industrial exposure of Germany and Sweden causes ABN-Amro to underweight those countries because of the potential effect of the Asian crisis.

Within the world portfolio, ABN-Amro is overweight Europe but warns "highly-rated world equity markets seem ill-placed to cope with any substantial erosion in earnings estimates. The US is our main concern, with Wall Street already showing signs of de-coupling from still bullish bonds.

"European markets are less expensive by comparison," adds ABN-Amro, "but still look stretched and are in no position to shrug off a more cautious mood in US equities. We thus do not expect a repetition of the strong equity returns which were a feature of 1997."

London market, Page 34

EMERGING MARKET FOCUS

Reform suffers Russian winter

When Asia's financial hurricane buffeted Russia – along with all other emerging markets – there was a tendency among local investors to believe the impact was overblown.

As fund managers reviewed the world at the end of 1997, the argument ran, they would decide that Russia looked a comparatively good bet. Russia was enjoying a rare period of political stability, its assets were undervalued and its economy was poised for growth.

Unfortunately, such wishful thinking has collided with a harsher fact: since the beginning of the year, the Russian stock market has fallen by about 20 per cent.

To be sure, the fallout from Asia is still affecting all emerging markets while the Russian market has been further knocked by the drop in world commodity prices. Oil companies account for about half the Russian market's capitalisation.

But Russia's specific problems are also looming much larger than before. If there is one lesson to be learned from Asia, it is that microeconomic issues matter. The Russian government's problems with its public finances, its difficulties in enacting a fair tax code, and a weak domestic banking sector will all restrain economic growth this year.

"A lot of investors are long and wrong on Russia and they can see further declines coming," says John Paul Smith, head of Russian equity research at *Morgan Stanley* and a long-standing bear on the market.

"The microeconomic situation in the country is so awful it will topple all the favourable macroeconomic arguments."

Mr Smith believes the market could drop a further 30 per cent as investors realise how far Russia has to go to create a functioning market economy.

But the bulls of the Russian market – and there are many – argue the "worse the better" is the best maxim for any reforming Russian government.

With access to international capital markets cut off for the time being, with little scope to raise domestic borrowing without pushing interest rates sky high, and with a net funding requirement of $1.5bn a month this year, the Russian government has no alternative but to overhaul its public finances and privatise more assets.

On this view, even the recent demotion of Anatoly Chubais and Boris Nemtsov, the two reforming first deputy prime ministers, *is good news in that it* allows them to concentrate their fire on specific targets. Mr Chubais will now devote himself to raising additional government revenue while Mr Nemtsov presses ahead with utilities and housing reforms.

"I think the Russia story *is still the same,*" says Par Mellstrom, head of research at Brunswick Warburg.

"If you look at the history of Russian reform you have always had one step back and two steps forward. You have to have a crisis to move to the next stage of reform."

John Thornhill

Merger news helps to lift US stocks

AMERICAS

US stocks traded higher at midsession as key earnings reports in the health and financial sectors added to market volatility, *writes John Labate in New York.*

By early afternoon the Dow Jones Industrial Average had gained 24.16 to 7,777.71 and the Standard & Poor's 500 was 7.19 higher at 968.70. Technology shares managed the best overall gains, sending the Nasdaq composite index up 15.95 to 1,578.83.

In the health sector, shares of American Home Products surged more than 13 per cent or $10⅞ to $91¼ on reports that the company was in merger talks with *SmithKline* Beecham. SmithKline, whose shares trade as ADRs in New York, rose 3 per cent or $2 to $59⅛.

News of the potential merger sent drug producers strongly higher. Warner-Lambert gained more than 5 per cent to $136½. Pfizer gained $2½ to $79 7/16 after *releasing quarterly earnings.*

The earnings reporting season heated up in a big day for banking stocks. J.P. Morgan's earnings fell below expectations, and the stock plunged $3 1/16 to $103 9/16. Chase Manhattan and Citicorp released results that were generally in line with *expectations, although they* saw an Asian effect. Chase's shares rose $ 3/16 to $106 1/16, while Citicorp gained $⅞ to $120 1/16.

Among other financial stocks, Merrill Lynch lost $2⅞ at $64 after releasing *quarterly results in line with* expectations.

In the technology sector analysts at Merrill Lynch cut its 1998 earnings estimates for Dell Computer and Compaq Computer. Compaq was down $ 3/16 at $59.

Semiconductor shares did especially well, however, as the semiconductor index of the Philadelphia Stock Exchange gained 8.58 or 3.3 per cent to 269.39. Intel rose $1 1/16 to $75⅞.

Bay Networks, the computer networking company *which was expected* to announce results later in the day, rose $1⅞ to $29½.

TORONTO ended a volatile morning little changed. Golds were weak and banks trended lower, but the broader market managed a more robust performance and at noon the 300 compos*ite index was up 0.49 at* 6,476.10.

Golds met with profit-taking for the second day running as investors pocketed some of last week's 14 per cent improvement for the sector. Barrick shed C$1.50 to C$25.15 and Placer Dome came off 65 cents at *C$17.70.*

São Paulo turns lower

SAO PAULO turned lower at midsession on profit-taking after two consecutive sessions of steep rises, and the *Bovespa index traded down* 185 or 1.9 per cent at 9,568.

Shares opened higher, helped by modest gains in Asia's battered stock markets, but moved into negative territory as investors decided to take accumulated profits. Among blue chips, benchmark Telebrás preferred was 2.1 per cent lower at R$119.

MEXICO CITY was weak *at midsession, in spite of the* early gains on Wall Street, as investors assessed the impact of a larger-than-expected trade deficit for December, its largest for three years.

The *IPC* index slipped 68.74 points lower to 4,704.70.

S Africa boosted by banks

Johannesburg moved strongly ahead, helped by a near 2 per cent surge in the *banking and financial* sector, and supported by bullion's climb back to $290. The overall index rose 74.1 or 1.3 per cent to 6,012.4.

Among the banks, Absa leapt 4.7 per cent to R30 while niche bank Investec added nearly 4 per cent to R186. *Foreign demand took* Richemont up 5.2 per cent to R54.60, helping the industrial index to put on 69.6 to 7,143.4. Golds rose 22.5 or 2.9 per cent to 810.3.

Milan and Madrid hit peaks

EUROPE

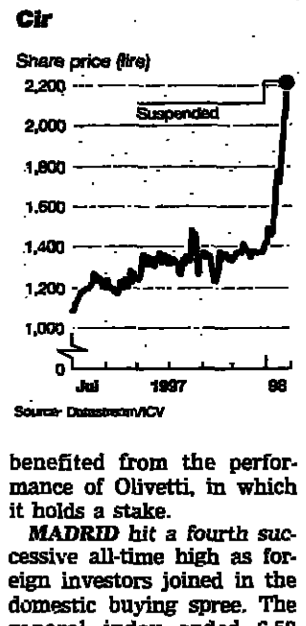
Gains in industrial stocks that have underperformed the market's recent rally enabled ***MILAN*** to resume its record-setting run and the Mibtel index closed 211 higher at 18,485.

Oil group Eni gained more than 3.5 per cent to L10,485 and Pirelli rose L169 to L4,586. Fiat added L252 to L5,638.

Shares in Cir, the holding *company controlled by* financier Carlo de Benedetti, were suspended after reaching their maximum permissible upper limit for a second successive day.

The shares were suspended at L2,215, up L200 or 10 per cent on the day. Cir has been in favour since announcing a restructuring programme designed to streamline holdings and increase profits. It has also benefited from the performance of Olivetti, in which it holds a stake.

Cir



Source: Datastream/ICV

MADRID *hit a fourth suc*cessive all-time high as foreign investors joined in the domestic buying spree. The general index ended 6.52 higher at 682.08. The index has risen 8 per cent this year.

Utilities took centre stage, with Gas Natural rising *Pta190 to Pta7,590. Union* Fenosa was Pta55 better at Pta1,570 and Iberdrola was Pta65 higher at Pta2,235, an all-time record.

Continuing interest surrounding Argentaria's forthcoming privatisation offering helped the bank's shares gain Pta410 to Pta9,980.

LISBON also ended at an all-time high, for the fifth session in a row. The PSI20 index closed at 9,651.90, up 179.28 on the day.

Telecel was the main feature as the telecoms compa*ny's shares gained Es1,500 to* an all-time high of 24,500, driven by optimism about its forthcoming results and what analysts called a severe stock shortage.

FTSE Actuaries Share Indices — European series

January 20

National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	xd adj	Total retn (Ecu)
FTSE Eurotop 300	1025.04	+0.34	+3.47	2.30	0.00	1033.31
FTSE Eurotop 100	2365.92	+0.44	+10.30	–	–	–
FTSE Eurotop 300 Regions						
300 UK	1041.60	–0.23	–2.45	3.08	0.00	1059.49
300 Ex-UK	1016.21	+0.68	+6.87	1.70	0.00	1019.10
300 Eurobloc	994.46	+0.53	+5.25	1.92	0.00	998.69
300 Ex-Eurobloc	1049.44	+0.21	+2.22	2.39	0.00	1060.73
FTSE Eurotop 300 Economic Groups						
Resources	914.50	+0.48	+4.33	3.00	0.00	927.74
General Industries	927.01	+0.17	+1.58	2.11	0.00	929.32
Consumer Goods	1053.89	+1.10	+11.44	1.74	0.00	1065.37
Services	1007.49	+0.01	+0.09	2.25	0.00	1016.17
Utilities	1114.61	+0.52	+5.80	2.61	0.00	1129.44
Financials	1098.09	–0.04	–0.43	2.12	0.00	1104.45

Base value 1000. More information on http://www.ftse.com. 'FTSE' and 'Footsie' are registered trade marks of the London Stock Exchange and The Financial Times. 'Eurotop' is a registered trade mark of the Amsterdam Stock Exchange. FTSE Eurotop indices are compiled by FTSE International. © FTSE International Limited 1998. All rights reserved.

PARIS saw a busy session for pharmaceuticals stocks which took the CAC 40 index above the 3,000-point level. Hit by technical problems, which delayed the start of trading until late morning, overall volume was dull at 10.9m shares. The CAC closed up 21.39 at 3,008.34.

Drugs provided the main feature with Rhône-Poulenc and Sanofi bouncing on the news that SmithKline Beecham of the UK had been in merger talks. Solid sales news from Sanofi offshoot Synthelabo and a good day for the dollar boosted sentiment in the sector.

Rhône jumped FFr7 to FFr302.10 and Sanofi FFr38 *or 6 per cent to FFr668. Elf* Aquitaine added FFr11 at FFr647 and Total FFr11 to FFr624. The separately listed Synthelabo gained FFr17 to FFr787.

FRANKFURT held on to most of its gains as a stronger dollar and Wall Street provided support. The Xetra *Dax index closed up 20.78 at* 4,310.83, off a high of 4,322.

Siemens was among the day's best performers, rising DM2.70 to DM110.65 after the company said its power plant business did not expect any negative impact on Asian contracts.

Degussa, the chemicals *and metals group, rose 50pfg* to DM98 after announcing positive first-quarter results and a rosy 1997/98 outlook.

The banks were mixed following Monday's announcement that three publicly owned banks were to merge to create Germany's sixth largest bank. Dresdner Bank lost 90pfg to DM76.80 and Deutsche Bank fell 95pfg to DM113.80. Commerzbank, however, managed a 54pfg rise to DM67.08.

AMSTERDAM pushed higher on dollar strength, *continued speculation about* share buybacks and a bounce for PolyGram.

PolyGram jumped Fl 5 or 5.2 per cent to Fl 101 following an upgrade from "neutral" to "accumulate" by Merrill Lynch. That coincided with a Dutch press report suggesting strong box-office takings for the group's film distribution arm.

Packaging leader KNP BT continued to gain ground as speculation mounted about an imminent management initiative. A recent note by *Credit Lyonnais Laing high*lighted the group's potential for radical restructuring and set a target price of Fl 55. The shares added Fl 1 at Fl 50.50.

ZURICH put in a positive performance and the SMI index finished 57.1 higher at 6,397.5.

Nestlé, a strong performer in recent sessions, continued higher ahead of today's statement on 1997 sales. The shares picked up SFr49 to SFr2,303, extending their rise since the start of last week to 8.5 per cent.

Analysts expect the company to report sales growth last year of about 16 per cent to SFr70bn.

A SFr17 rise in Alusuisse to SFr1,560 was attributed to rumours that Martin Ebner's BZ Bank was buying the stock. Both companies routinely declined to comment.

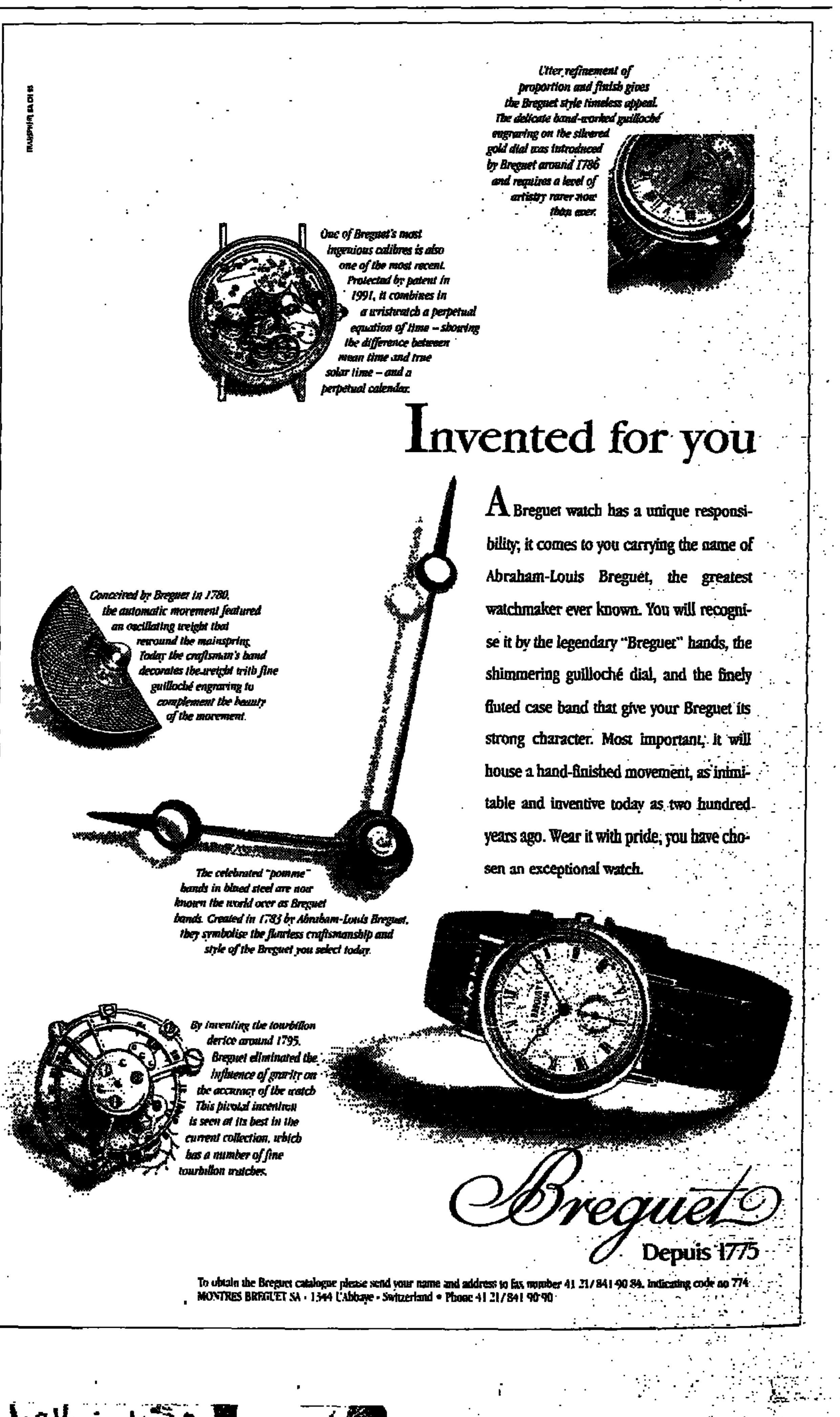
Against the trend, SMH lost SFr20 to SFr715 as speculation mounted that the Smart car project with Daimler could be scrapped. Daimler denied the story on Monday.

Ciba fell SFr3.50 to SFr169 as its statement that 1997 sales rose by 19 per cent – in line with expectations – was overshadowed by its potential bid for Britain's Allied Colloids.

VIENNA jumped 2.5 per cent, driven by strong *demand for banking stocks* and utilities. The ATX index finished 31.82 higher at 1,320.26.

Verbund led the advance with a rise of Sch155 to Sch1,550 on news of further co-operation in the energy sector.

Written and edited by Michael Morgan, Jeffrey Brown, Jonathan Ford and Peter Hall.



Profits warning slows Tokyo

ASIA PACIFIC

Shares in *TOKYO* rose for the fifth day running, but the momentum slowed, *writes Bethan Hutton in Tokyo.* The Nikkei 225 average added 104.49 at 16,366.53.

Sentiment was positive in the *morning as* the index rose to 16,430.27 from a low of 16,077.22, but some of the gains were taken back in afternoon trading. The broader-based Topix index ended 1.43 higher at 1,232.89, but the capital-weighted Nikkei 300 slipped 0.17 to 247.86.

Volume fell back to an estimated 570m shares from 680m on Monday. Gainers outnumbered losers by 758 to 403.

The market was depressed by a profits warning from Toshiba, the electronics and computer manufacturer. Toshiba ended Y4 higher at Y555, but other electronics stocks *fell back.* NEC dropped Y30 to Y1,490, Hitachi Y10 to Y1,010, and Matsushita Electric Industrial Y10 to Y1,950.

Softbank, the computer-related publishing company which moved to the first section of the exchange on Friday, continued to advance after announcing an extra Y20 commemorative dividend to mark the shift. Softbank was up Y430 at Y4,800.

Hong Kong

Source: Datastream/ICV

Nomura, the securities house, fell Y40 to Y1,680 after the arrest of two executives on bribery charges at the weekend, and Monday's announcement of weak final quarter results.

In Osaka, the OSE index was up 39.52 at 15,952.10 in volume of 32.9m shares.

BANGKOK paused for breath after climbing more than 15 per cent in two sessions. The SET index fell back 6.93 to 413.79 having touched 424.15 earlier. Foreigners were said to have remained net buyers, but it was a *steadier day all round* with investors awaiting feedback from the meeting between the finance ministry and the IMF on terms of Thailand's $17.2bn support package. Share turnover eased to *Bt5.2bn* from Bt7.2bn on Monday.

HONG KONG turned its attention to the telecommunications sector as Hongkong Telecom announced it had surrendered its exclusive international licence.

Telecom gained 40 cents to HK$15.55 after it said it had *reached a deal with the* Hong Kong government for an early end to its international licence in return for compensation including HK$6.7bn cash, net of tax.

Among potential beneficiaries, Hutchison Communications climbed HK$1.90 to HK$46 and New World *Development added 40 cents* to HK$21.20. Against the trend, Wharf slipped 25 cents to HK$11.50.

The Hang Seng index finished 33.28 higher at 9,433.70 after hitting a low of 9,212.13 and jumping to an intra-day high of 9,659.27.

SINGAPORE gave up 2.3 per cent, unsettled by the uncertain outlook for regional currencies, and with much of the day's activity confined to small capitalisation stocks and Malaysian shares traded over the counter.

The Straits Times Industrials index lost 30.27 at 1,296.91. MBF Capital led the actives list and lost 6 cents to 44.5 cents.

JAKARTA ended more than 2 per cent higher after President Suharto confirmed he intended to stand for a seventh term in office. The news eased concern about *political uncertainty which* had dogged the market.

Banking stocks soared on continuing merger talk. Bank Danamon gained Rp50 to Rp450 on rumours of a deal with an unlisted bank. BII, which signed an outline agreement last week to merge with four other banks, *gained Rp25 to Rp525.* Bank Panin rose Rp100 to Rp600 and Bank Bali was Rp50 better at Rp600. Overall, the composite index rose 9.01 to 448.04.

WELLINGTON pushed higher on paper stock optimism. The 40 capital index gained 20.72 to 2,257.45.